United States Department of Agriculture

Commodity Credit Corporation's Balance Sheet for Fiscal Year 2017

Audit Report 06401-0008-11

November 2017

OFFICE OF INSPECTOR GENERAL

United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: November 9, 2017

AUDIT NUMBER: 06401-0008-11

TO: Board of Directors
Commodity Credit Corporation

ATTN: Perry Thompson
Director
Operations Review and Analysis Staff

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Commodity Credit Corporation's Balance Sheet for Fiscal Year 2017

This report presents the results of the audit of Commodity Credit Corporation's (CCC) consolidated balance sheet for the fiscal year ending September 30, 2017. The report contains an unmodified opinion on the balance sheet, as well as an assessment of CCC's internal controls over financial reporting and compliance with laws and regulations.

KPMG LLP, an independent certified public accounting firm, conducted the audit. In connection with the contract, we reviewed KPMG LLP's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States (U.S.), was not intended to enable us to express, and we do not express, an opinion on CCC's consolidated balance sheet; internal control; whether CCC's financial management system substantially complied with the Federal Financial Management Improvement Act of 1996 (FFMIA); or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report, dated November 9, 2017, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with government auditing standards and the Office of Management and Budget 17-03, *Audit Requirements for Federal Financial Statements*, in the performance of its engagement.

It is the opinion of KPMG LLP that the balance sheet presents fairly, in all material respects, CCC's financial position as of September 30, 2017, in accordance with accounting principals generally accepted in the United States.

KPMG LLP's report on CCC's internal control over financial reporting identified two deficiencies. Specifically, KPMG LLP identified weaknesses in CCC's:

- accounting for budgetary transactions, and
- accounting estimates.

KPMG LLP considered these two deficiencies to be material weaknesses. The results of KPMG LLP's tests of compliance with laws and regulations disclosed instances of noncompliance with FFMIA.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to OCFO.

We appreciate the courtesies and cooperation extended during this engagement. This report contains publicly available information and will be posted in its entirety to our website http://www.usda.gov/oig in the near future.

KPMG LLP
Suite 12000
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Washington, DC 20006

Independent Auditors' Report

Board of Directors, Commodity Credit Corporation
Inspector General, United States Department of Agriculture:

Report on the Financial Statement

We have audited the accompanying consolidated balance sheet of the U.S. Department of Agriculture, Commodity Credit Corporation (CCC) as of September 30, 2017, and the related notes (the consolidated financial statement).

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this consolidated financial statement in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statement

In our opinion, the consolidated financial statement referred to above presents fairly, in all material respects, the financial position of the U.S. Department of Agriculture, Commodity Credit Corporation as of September 30, 2017, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis section be presented to supplement the basic consolidated financial statement. Such information, although not a part of the basic consolidated financial statement, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statement, and other knowledge we obtained during our audit of the basic consolidated financial statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statement as a whole. The Preface, Table of Contents, Performance Section, Message from the Chief Financial Officer, Introduction to the Consolidated Balance Sheet, Other Information section, and Appendix: Glossary of Acronyms are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statement. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statement as of September 30, 2017, we considered the CCC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statement, but not for the purpose of expressing an opinion on the effectiveness of the CCC's internal control. Accordingly, we do not express an opinion on the effectiveness of the CCC's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in Exhibit I, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the areas noted below, and described in Exhibit I, to be material weaknesses.

1. Accounting for Budgetary Transactions

2. Accounting Estimates

KPMG

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CCC's consolidated financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 17-03, and which are described in Exhibit II.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed instances, described in Exhibit II, in which the CCC's financial management systems did not substantially comply with applicable Federal accounting standards and the United States Government Standard General Ledger at the transaction level. The results of our tests disclosed no instances in which the CCC's financial management system did not substantially comply with Federal financial management systems requirements.

CCC's Response to Findings

The CCC's response to the findings identified in our audit is included in Exhibit III. The CCC's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statement and, accordingly, we express no opinion on the response.

Our response to CCC's response is included in Exhibit IV.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the CCC's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington D.C.
November 9, 2017

During Fiscal Year (FY) 2017, the Commodity Credit Corporation (CCC) undertook various audit remediation efforts to address prior year material weaknesses and improve its internal controls and the accounting for significant balances in its financial statements. Our responsibility under professional standards requires the reporting of material weaknesses and/or significant deficiencies that were identified during the execution of our audit. The material weaknesses communicated in this Exhibit highlight areas that require management attention and the further development of processes, procedures, and effective controls in the (1) accounting for budgetary transactions, and (2) accounting estimates.

The following criteria were considered in the determination and evaluation of the material weaknesses:

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, states:

> Documentation is a necessary part of an effective internal control system. Documentation is required for the effective design, implementation, and operating effectiveness of an entity's internal control system […] Management develops and maintains documentation of its internal control system […] Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination.

The Office of Management and Budget (OMB), Circular No. A-123, *Managements Responsibility for Enterprise Risk Management and Internal Control,* states:

> Management is responsible to develop and maintain effective internal control […] This includes establishing and maintaining internal control to achieve specific objectives related to operations, reporting and compliance.

OMB *Circular A-11, Preparation, Submission, and Execution of the Budget*, states:

> Obligation means a legally binding agreement that will result in outlays, immediately or in the future. When you place an order, sign a contract, award a grant, purchase a service, or take other actions that require the Government to make payments to the public or from one Government account to another, you incur an obligation. It is a violation of the Anti-deficiency Act (31 U.S.C. 1341(a)) to involve the Federal Government in a contract or obligation for payment of money before an appropriation is made, unless authorized by law. This means you cannot incur obligations in a vacuum; you incur an obligation against budget authority in a Treasury account that belongs to your agency. It is a violation of the Anti-deficiency Act to incur an obligation in an amount greater than the amount available in the Treasury account that is available. This means that the account must have budget authority sufficient to cover the total of such obligations at the time the obligation is incurred. In addition, the obligation you incur must conform to other applicable provisions of law, and you must be able to support the amounts reported by the documentary evidence required by 31 U.S.C. 1501.

Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, states:

> A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events. General purpose federal financial reports should recognize probable and measurable future outflows or other sacrifices of resources arising from (1) past exchange transactions, (2) government-related events, (3) government acknowledged events, or (4) nonexchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date. The existence of a past event (which includes transactions) is essential for liability recognition.

FASAB SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, states:

> Actual historical experience of the performance of a risk category is a primary factor upon which an estimation of default cost is based. To document actual experience, a database should be maintained to provide historical information on actual payments, prepayments, late payments, defaults, recoveries, and amounts written off.

FASAB Technical Release (TR) No. 6, *Preparing Estimates for Direct Loans and Loan Guarantee Subsidies under the Federal Credit Reform Act*, states:

> Documentation must be provided to support the assumptions used by the agency in the subsidy calculations. This documentation will not only facilitate the agency's review of the assumptions, a key internal control, it will also facilitate the auditor's review.
>
> Documentation should be complete and stand on its own, i.e., a knowledgeable independent person could perform the same steps and replicate the same results with little or no outside explanation or assistance. If the documentation were from a source that would normally be destroyed, then copies should be maintained in the file for the purposes of reconstructing the estimates.
>
> The accounting office should maintain detailed subsidiary accounting records by program, cohort, risk category (if applicable) and case (individual direct loan or loan guarantee).

FASAB TR No. 12, *Accrual Estimate for Grant Programs,* states:

> Agencies should document and maintain support for the data and assumptions used to develop grant accrual estimates. The documentation will facilitate the agency's review of the assumptions, a key internal control, and will also facilitate the auditor's testing of the estimates. Documentation should be complete and stand on its own, i.e., a knowledgeable independent person could perform the same steps and replicate the same results. If the documentation were from a source that would normally be destroyed, then copies should be maintained in the file for the purpose of reconstructing the estimates.

FASAB SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principle*, states:

> Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. When errors are discovered after the issuance of financial statements, and if the financial statements would be materially misstated absent correction of the errors, corrections should be made as follows:
>
> a) If only the current period statements are presented, then the cumulative effect of correcting the error should be reported as a prior period adjustment.

Accounting for Budgetary Transactions

During FY 2017, management implemented manual remediation procedures, primarily related to the Undelivered Orders (UDOs) account, to address certain aspects of a material weakness initially identified in a prior year, in which management was unable to adequately support certain budgetary transactions and related balances. As a result of these remediation efforts, management initially identified and recorded adjusting entries, totaling approximately $879 million, to UDOs that should have been de-obligated in prior years. Our audit procedures identified weaknesses in management's remediation policies and procedures, described below, which required further actions by CCC.

Historically, CCC's accounting policy for its Conservation Reserve Program (CRP) – Annual Rental included the recognition of rental obligations only for the annual rental (conservation) payment due to the producer in the following fiscal year. However, the CRP – Annual Rental contracts are long-term (10-15 year) contracts, which according to OMB Circular No. A-11, require recognition of the obligation in the amount necessary to cover the full term of the contractual obligations (i.e., the estimated total payments CCC is expected to make to the producer under the life of the contract). In FY 2017, management initially developed an accounting position that would have accounted for this correction as a prospective change. In accordance with SFFAS No. 21, because the CRP – Annual Rental contracts should have been obligated in full in prior years, the correction of this past practice is considered a correction of an error, and the adjustment should have been accounted for retrospectively. Management's processes, procedures, and controls did not identify the treatment of this correction as a retrospective adjustment. As a result of our concerns, and the requirements of SFFAS No. 21, management subsequently changed the accounting position and to account for the prior period error as a retrospective adjustment, which resulted in approximately $10 billion in adjusting entries to increase the UDO beginning balance. In doing so, management also identified a potential *Anti-Deficiency Act* violation, which is further described in Exhibit II.

In addition to the matters described above, we identified other weaknesses in management's corrective actions regarding the identification of invalid UDOs requiring further remediation efforts. Specifically, management reduced the Agriculture Risk Coverage (ARC)/Price Loss Coverage (PLC) and various other program UDO beginning balances by approximately $434 million, representing amounts that should have been deobligated in prior years. Further, during our testing of the CRP UDO beginning balance, we identified errors that projected to a potential overstatement of approximately $36 million.

We also identified an error related to Unobligated Balances Brought Forward of approximately $1.2 billion that was not identified by management. This error related to borrowing authority sequestration balances that were not reversed when closing the account balances at year-end. Management subsequently corrected this error, which had no impact to the Combined Statement of Budgetary Resources, because the related accounts close to the same financial statement line item. However, this matter indicates that adequate reviews of budgetary account balances were not performed at a sufficient level of precision. The Combined Statement of Budgetary Resources is presented in the Other Information section of the accompanying Annual Management Report.

Due to the weaknesses identified above, management's remediation activities continue, and further adjustments to its UDO balances and other related budgetary balances may occur during FY 2018.

<u>Recommendations related to Accounting for Budgetary Transactions:</u>

We provided detailed recommendations in separate findings to management. In summary, we recommend that CCC:

1. Develop and implement necessary policies, procedures, and controls at the appropriate level of precision to record, monitor, and validate UDO balances periodically, and, when necessary, de-obligate UDOs in a timely manner (appropriate fiscal year) at the individual producer and/or transaction level.

2. Develop policies and procedures to ensure that its accounting positions appropriately identify the accounting issue, assess all aspects of U.S. generally accepted accounting principles (GAAP), and effectively implement positions that are in accordance with GAAP. In those instances where a prior period error is identified, appropriately correct such errors retrospectively.

3. Continue to evaluate all budgetary general and subsidiary ledgers, to ensure that they reflect the appropriate accounting and reporting guidance provided by OMB and the U.S. Department of Treasury (Treasury).

Accounting Estimates

CCC's Consolidated Balance Sheet includes several estimates to account for Accrued Liabilities; Direct Loans and Loan Guarantees, Net; and Grants Payable, related to Parent/Child activity. Similar to our findings in the FY 2016 audit, while improvements in certain areas have been made by management, other weaknesses in CCC's processes, procedures, and controls continue to exist related to accounting estimates, including weaknesses related to the accounting entries to record the effect of such estimates.

A. Accrued Liabilities

The Accrued Liabilities estimate is primarily comprised of liabilities related to the ARC/PLC and CRP programs. ARC/PLC and CRP accounted for approximately $7.1 billion and $1.7 billion, respectively of the total Accrued Liabilities balance as of September 30, 2017. During FY 2017, CCC took various actions to remediate several aspects of the prior year material weakness related to Accrued Liabilities. However, new weaknesses in accounting for Accrued Liabilities were identified during FY 2017, related to CRP, and further improvements are needed related to ARC/PLC.

Management initially developed an accounting policy related to the recognition of an accrued liability for the executed long-term (10-15 year) CRP – Annual Rental contracts, which indicated that an accrual should be recognized for the net present value of the long-term contract. However, this position did not appropriately consider the guidance in SFFAS No. 5, regarding the requirements for liability recognition, which includes determining the occurrence of a past event and/or transaction. Management's initial accounting position, would have resulted in an overstatement in the Accrued Liabilities balance of approximately $10 billion. As a result of questions we brought to management's attention, the accounting position was subsequently updated to recognize a liability for only the amounts owed to the producer for the land conservation (rental period) that occurred prior to fiscal year-end.

We also identified weaknesses in management's review of the year-end accrual for the ARC/PLC program. During our testing, we identified instances where management did not utilize the Market Year Average (MYA) prices closest to September 30, 2017. This resulted in a projected overstatement in the accrual of approximately $14 million. In addition, an error was identified in management's adjusting journal entry to record the year-end accrual, resulting in an understatement of approximately $19 million, which was subsequently adjusted for in the September 30, 2017 Consolidated Balance Sheet.

B. Direct Loans and Loan Guarantees, Net

CCC's Direct Loans and Loan Guarantees, Net, of approximately $2.4 billion, are primarily comprised of the following portfolios:

- Title I, Public Law 480 (PL 480) Pre-Credit and Credit Reform, with a balance of approximately $1.3 billion (net);
- Farm Storage Facility Loan (FSFL) Credit Reform, with a balance of approximately $721 million (net); and
- Export Credit Guarantee Program Pre-Credit and Credit Reform, with a balance of approximately $248 million (net).

In our FY 2016 Independent Auditors' Report, we identified weaknesses in processes, procedures, and controls related to the monitoring of PL-480 and Export Credit Guarantee Program loans that were considered non-performing, and management's ability to provide sufficient appropriate audit evidence, such as underlying loan agreements, amortization schedules, and other relevant information to support the validity of the outstanding loan balances. In addition, we reported internal control weaknesses related to the FSFL portfolio, in that management did not perform reconciliation procedures to ensure that the loan level accounting agreed between the subsidiary ledger and the general ledger.

During FY 2017, management implemented corrective actions to address and resolve the prior year finding related to the FSFL portfolio. Regarding PL-480 and Export Credit Guarantee Program, management implemented a quarterly loan portfolio analysis, to monitor the performance of loans, and to ensure that adequate supporting documentation was readily available. Complete and accurate loan balances are a critical input into the cash flows and liquidating allowance models for financial statement reporting purposes.

Although the quarterly loan portfolio analysis that CCC developed remediated the portion of the prior year finding related to PL-480, weaknesses in the design of processes, procedures, and controls related to the portfolio analysis remained regarding the Export Credit Guarantee Program. Specifically, management applied the same methodology that was used to evaluate and monitor loans for PL-480 to the Export Credit Guarantee Program. However, coordination between the accounting office and the Export Credit Guarantee program office with knowledge of the nature and circumstances of each loan is necessary, but was not effectively performed during the year. For example, management's portfolio analysis initially identified certain loans for potential write-off but the analysis did not include adequate coordination with the program office to consider the specific underlying nature and circumstances of the loan performance prior to arriving to such accounting decision. As a result of our concerns, management revised its process and included further coordination with the program office when conducting the portfolio analysis, which lead to certain changes to the initial accounting decisions made.

In addition, during the financial reporting process, we identified weaknesses in processes, procedures, and controls related to management's review of the adjustment to record the allowance for PL-480 direct loans obligated pre-1992. Specifically, we noted that the adjusting entry did not include the reversal of the allowance previously recorded, which resulted in an overstatement in the allowance and an understatement of the Direct Loan, Net balance by $484 million. This error also caused an equivalent understatement to the Resources Payable to Treasury liability. Management subsequently recorded a post-closing adjusting entry to correct this error.

C. Accounting for Parent/Child Transactions (Grants Payable)

The parent/child accounting and reporting guidance provided by OMB Bulletin No. A-136, *Financial Reporting Requirements,* states, "The parent must report all budgetary and proprietary activity in its financial statements." CCC's grant programs are administered through a parent/child agreement where CCC is the parent and another Federal agency is the child. In FY 2016, CCC implemented a new grant accrual methodology specific to the CCC grants managed and executed by the child agency, which was further enhanced during FY 2017. While adjustments were made in CCC's methodology, we continued to identify areas needing improvement, similar to the prior year. We noted that management did not evaluate or perform a review, at an adequate level of precision, over the completeness and accuracy of the historical underlying data (inputs and assumptions) used in the grant accrual estimation calculation. In addition, the underlying data used in the estimation methodology was not validated or compared to other corroborating documentation, such as grant contracts, Treasury disbursements, and SF-425s (Federal Financial Reports). As a result, during FY 2017, CCC did not have processes, procedures, and controls at an adequate level of precision to validate the completeness and accuracy of the underlying data used in its grant accrual methodology.

<u>Recommendations related to Accounting Estimates:</u>

We provided detailed recommendations in separate findings to management. In summary, we recommend that CCC:

1. Develop policies and procedures to ensure that accounting positions appropriately identify the accounting issue, assess all aspects of GAAP, and effectively implement positions that are in accordance with GAAP.

2. Design and implement processes, procedures, and controls to ensure that data used in its accounting estimates are complete and accurate.

3. Ensure that there is adequate supervisory review and approval of the estimates, by appropriate levels of management, including review of the sources of relevant factors, development of assumptions, and reasonableness of assumptions and resulting estimates. These reviews should be at a sufficient level of precision, to detect errors in the estimates that would be material to the financial statements. In addition, these reviews should also include an evaluation of adjusting entries recorded as a result of the executed methodology.

***Noncompliance with the Federal Financial Management Improvement Act of 1996* (FFMIA)**

The FFMIA, Section 803(a) requires that Federal financial management systems comply with (1) Federal system requirements, (2) Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability. FFMIA requirements apply to *Chief Financial Officers Act of 1990* (CFO Act) agencies as well as *Government Corporation Control Act* Agencies that are components of a CFO Act agency.

During our audit, we identified instances where the financial management systems did not substantially comply with applicable Federal accounting standards and the United States Government Standard General Ledger (USSGL) at the transaction level. For example:

- Federal accounting standards - We identified weaknesses in the accounting for budgetary transactions and accounting estimates that rose to the level of material weaknesses, as reported in Exhibit I, which provide an indication that CCC's financial management systems were substantially non-compliant with Federal accounting standards.

- USSGL at the transaction level – As also identified by management during FY 2017, the financial management systems did not record certain accounting events, at the transaction level, in accordance with the USSGL.

<u>Recommendation:</u>

We recommend that management implement the recommendations presented in Exhibit I, to resolve the instances of noncompliance with FFMIA.

Other Matters – Potential Anti-Deficiency Act Violations

Title 31 U.S. Code (U.S.C.) Section 1517 states that an officer or an employee of the United States Government may not make or authorize an expenditure or obligation exceeding an apportionment or an amount permitted by regulations as specified by Title 31 U.S.C. Section 1514. If an officer or employee of an executive agency or of the District of Columbia government violates subsection (a) of this section, the head of the executive agency or the Mayor of the District of Columbia, as the case may be, shall report immediately to the President and Congress all relevant facts and a statement of actions taken. A copy of each report shall also be transmitted to the Comptroller General on the same date the report is transmitted to the President and Congress.

We noted the following matters that are currently under review:

1. In a prior year, interest expense related to Debt with Treasury exceeded apportioned amounts by approximately $7 million. Subsequently, management represented that this was resolved through a reapportionment through the OMB. Jointly, management, the Office of General Counsel, and OMB are continuing to review the legal authority of CCC, to determine if CCC has authority to automatically adjust the funding for interest expenditures to Treasury.

2. During FY 2017, as described in Material Weakness No. 1, *Accounting for Budgetary Transactions*, in Exhibit I, the prior year accounting treatment for obligations related to the CRP – Annual Rental program was determined to be in error such that the entire (multi-year) contract value should have been obligated upon execution of the agreement, instead of recording the obligation for only the annual portion of the contract value. As a result, CCC recorded approximately $10 billion in obligations as a beginning balance adjustment, whereby apportioned authority may not have been available in prior years. CCC is in the process of providing a

statement of facts to the Office of General Counsel who will then determine if a reportable *Anti-Deficiency Act* violation exists.

Recommendation:

We recommend that management, through coordination with other necessary parties, complete the investigation into the potential *Anti-Deficiency Act* violations, communicate to necessary parties (Congress, President, and Comptroller General) if it is determined that a reportable violation occurred, and implement policies and procedures to prevent future violations.

USDA

United States Department of Agriculture

Farm and Foreign Agricultural Services

Commodity Credit Corporation

Office of Budget and Finance
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TO: Steven Rickrode
Director Office of Financial Audit Operations
USDA

KPMG LLP
1801 K-Street, NW, Suite 12000
Washington DC 20006

FROM: Radha C. Sekar
Chief Financial Officer
Commodity Credit Corporation

NOV 07 2017

SUBJECT: Commodity Credit Corporation (CCC) Audit Response

We have reviewed the KPMG Draft Independent Auditors' Report. We accept the Auditors' unmodified opinion on CCC's financial statement, specifically the 2017 Consolidated Balance Sheet.

CCC's management undertook a significant level of effort in rectifying years of systemic issues with budgetary transactions, including unliquidated obligations issues at programmatic level; changing years of erroneous accounting treatment of Conservation Reserve Program; assessing risk of foreign loan portfolios, and accounting for parent child transactions. Despite these efforts, CCC was not in a position to go forward with a full statement audit.

While management disputes some KPMG statements of cause and condition, as previously documented in responses to various Notices of Findings and Recommendations (NFRs), CCC concurs with the two material weaknesses KPMG identified. CCC is in the process of developing and implementing corrective actions to remediate these material weaknesses and will continue to work with the USDA Office of Inspector General to ensure effective remediation in Fiscal Year 2018.

On KPMG's finding of substantial noncompliance with the Federal Financial Managers Integrity Act (FFMIA), CCC does not concur with this determination, specifically in regards to federal accounting standards compliance. CCC management asserts that the conditions noted do not rise to the level of classification of substantial non-compliance. CCC's financial management systems do facilitate the accomplishment of 1) reliable financial reporting, 2) effective and efficient operations, and 3) compliance with applicable laws and regulations as required by FFMIA.

Please feel free to reach out to John White at (202) 720-1672 if you have any questions.

CCC's response to our findings is presented in Exhibit III. CCC did not concur with our determination regarding substantial non-compliance with the Federal accounting standards requirement of the *Federal Financial Management Improvement Act of 1996* (FFMIA). CCC's asserts in its response that the conditions noted do not rise to substantial non-compliance. As described in Exhibit I, we identified material weaknesses that we believe are high risk indicators that CCC's financial management systems did not substantially comply with applicable Federal accounting standards. For example, CCC recorded adjustments to its UDO beginning balances of approximately $8.5 billion; revised its position regarding the CRP accrued liability to prevent an overstatement of approximately $10 billion; adjusted the allowance for PL-480 direct loans obligated pre-1992 by approximately $484 million; and adjusted the ARC/PLC accrued liability by approximately $19 million. These adjustments and the material weaknesses identified in Exhibit I, lead to our conclusion that CCC's financial management systems did not substantially comply with applicable Federal accounting standards.

U.S. DEPARTMENT OF AGRICULTURE

COMMODITY CREDIT CORPORATION

2017 ANNUAL MANAGEMENT REPORT

U.S. Department of Agriculture
Commodity Credit Corporation

1400 Independence Avenue, S.W.
Washington, DC 20250

2017 Annual Management Report

PREFACE

This Annual Management Report shows the results of the Commodity Credit Corporation's (CCC) operations for fiscal year 2017. This report meets the requirements of the CCC Charter Act, as amended, and the Government Corporation Control Act, as amended. The electronic version of this report can be found at http://www.usda.gov/oig.

The Management's Discussion and Analysis section of the report contains the purpose, authority, mission, and goals of the Corporation, financial, program summaries, and performance measures. This report also includes the auditors' report, performance information, audited consolidated balance sheet and related notes. Additionally, unaudited financial statements, related notes and other information is presented in the Other Information section.

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Part I: Management's Discussion and Analysis (Unaudited)

Certain information contained in this discussion is considered "forward-looking information" as defined by the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 15, *Management's Discussion and Analysis.* Such forward-looking information includes estimates and is subject to risks and uncertainties that could cause actual results to differ materially from this discussion.

Mission Statement

The Commodity Credit Corporation is a Government-owned and operated entity dedicated to:

- Stabilizing, supporting, and protecting farm income and prices.
- Conserving soil, air, and water resources and protecting and improving wildlife habitats.
- Maintaining balanced and adequate supplies of agricultural commodities and aiding in their orderly distribution.
- Developing new domestic and foreign markets and marketing facilities for agricultural commodities.

History of the Commodity Credit Corporation

The Commodity Credit Corporation (hereinafter CCC or Corporation) is a wholly owned United States government corporation created in 1933 to "stabilize, support, and protect farm income and prices." It was federally chartered by the CCC Charter Act of 1948 (P.L. 80-806) and its statutory authority for operations is found there and in 62 Stat. 1070; 15 U.S.C. 714, et seq. CCC is authorized to buy, sell, lend, make payments and engage in other activities for the purpose of increasing production, stabilizing prices, assuring adequate supplies, and facilitating the efficient marketing of agricultural commodities.

CCC provides the mechanism for financing USDA's farm price and income support commodity programs, commodity export credit guarantees, and agricultural export subsidies. The programs funded through CCC are administered primarily by the Farm Service Agency (FSA) and the Foreign Agricultural Service (FAS). CCC helps maintain balanced and adequate supplies of agricultural commodities and aids in their orderly distribution. Further, the Federal Agriculture Improvement and Reform Act of 1996 (1996 Farm Bill) (P.L. 104-127) expanded CCC's mandate to include funding for several conservation programs, such as the Conservation Reserve Program (CRP), and made conservation one of CCC's missions. CCC has the authority to borrow up to $30 billion from the U.S. Treasury to carry out its mission. Net losses from its operations subsequently are restored through the congressional appropriations process.

America's agricultural producers are assisted by CCC through commodity and farm storage facility loans, commodity purchases, and income support payments. CCC also works to make available materials and facilities required in the production and marketing of agricultural commodities. In addition, CCC provides incentives and payments to landowners to establish conservation practices on their land.

The Corporation provides agricultural commodities to other federal agencies and foreign governments. It also donates commodities to domestic and international relief agencies as well as foreign countries. It assists in the development of new domestic and foreign markets and marketing facilities for American agricultural commodities. CCC operates numerous domestic programs such as income support, disaster assistance, and conservation programs. It also extends direct credit and guarantees commodity sales to foreign countries throughout the world.

CCC has its own disbursing authority and utilizes the Federal Reserve Bank (FRB) system and United States Treasury to make payments. This disbursing authority allows CCC to make payments quickly and to provide financial support to America's producers and farmers immediately.

CCC has multiple funding mechanisms:

- Under its Charter Act, CCC has a permanent indefinite borrowing authority, as defined by Office of Management and Budget (OMB) in Circular A-11, *Preparation, Submission, and Execution of the Budget,* to fund most of the programs operated out of the revolving fund. Borrowing authority permits the Corporation to incur obligations and authorizes it to borrow funds to liquidate the obligations. This fund also receives money from loan repayments, inventory sales, interest income, fees, and reimbursement for realized losses.
- Under the Federal Credit Reform Act of 1990 (FCRA), as amended, CCC also has a separate permanent indefinite borrowing authority to fund disbursements for credit reform financing as well as pre-credit reform liquidating programs.
- Lastly, CCC receives direct appropriations for specific programs, such as its credit reform programs, foreign grant and donation programs, and disaster relief.

Structure of the Commodity Credit Corporation

CCC is managed by a Board of Directors, subject to the general supervision and direction of the Secretary of Agriculture, who is an ex-officio director and chairperson of the Board. The Board consists of seven members, in addition to the Secretary, who are appointed by the President of the United States. All members of the Board and Corporation officers are USDA officials. CCC officers, directly or through officials of designated USDA agencies, maintain liaison with numerous other governmental and private trade operations. See the current organizational structure on page seven for further information.

CCC has no operating personnel. Its price support, storage, and reserve programs, and its domestic acquisition and disposal activities are carried out primarily through the personnel and facilities of FSA. FAS is programmatically responsible for certain CCC activities outside the United States. Also involved with CCC activities are USDA Agricultural Marketing Service (AMS), USDA Natural Resources Conservation Service (NRCS), and the United States Agency for International Development (USAID), through an allocation transfer.

Most CCC programs are delivered through an extensive nationwide network of FSA field offices, including approximately 2,100 USDA Service Centers and 51 State-level offices (including Puerto Rico). This network enables CCC to maintain a close relationship with customers, successfully addressing their needs and continually improving program delivery. FSA implements CCC-funded programs for income support, disaster assistance, conservation, and international food procurement.

Though FSA provides the majority of staff for CCC, several CCC-funded programs fall under purview of FAS or NRCS. FAS has the primary responsibility for USDA international activities - market development, trade agreements and negotiations, and the collection and analysis of statistics and market information. It also administers USDA export credit guarantee and certain food aid programs and helps increase income and food availability in developing nations by mobilizing expertise for agriculturally led economic growth. Further details on CCC programs can be found in the performance section of this report.

NRCS provides leadership in a partnership effort to help American private landowners and managers conserve their soil, water, and other natural resources. It also provides financial assistance for conservation activities. CCC reaches out to all segments of the agricultural community, including underserved and socially disadvantaged farmers and ranchers to ensure that CCC programs and services are accessible to everyone.

Through a parent-child relationship, CCC allocates funding which supports various activities led by USAID, including the Food For Peace (FFP) program. The mission of FFP is to reduce hunger and malnutrition and ensure that all people at all times have access to sufficient food for a healthy and productive life. FFP provides emergency food assistance to those affected by conflict and natural disasters and provides development food assistance to address the underlying causes of hunger. CCC provides funding for the purchase of commodities and for transportation costs in support of FFP operations. USAID executes the programs and the results are passed back to CCC for financial reporting purposes.

Organizational Structure

CCC Board of Directors

Chairperson, Sonny Perdue, Secretary of Agriculture
Vice Chairperson, Vacant*, Deputy Secretary of Agriculture
Member, Vacant*, Under Secretary, Rural Development (RD)
Member, Vacant*, Under Secretary, Farm and Foreign Agricultural Services (FFAS)
Member, Vacant*, Under Secretary, Food, Nutrition, and Consumer Services (FNCS)
Member, Vacant*, Under Secretary, Marketing and Regulatory Programs (MRP)
Member, Vacant*, Under Secretary, Natural Resources and Environment (NRE)
Member, Vacant*, Chief Financial Officer (CFO), USDA

CCC Officers

President, Vacant*, Under Secretary, FFAS
Executive Vice President, Steve Peterson, Acting Administrator, FSA
Vice President, Chris Beyerhelm, Associate Administrator, Operations and Management, FSA
Vice President, Vacant, Associate Administrator, Policy and Programs, FSA
Vice President, Bruce Summers, Acting Administrator, AMS
Vice President, Holly Higgins, Acting Administrator, FAS
Vice President, Bryce Quick, Acting General Sales Manager, FAS
Vice President, Brandon Lipps, Administrator, Food and Nutrition Service (FNS)
Vice President, Leonard Jordan, Chief, NRCS
Deputy Vice President, Sandra Wood, Acting Deputy Administrator, Commodity Operations, FSA
Deputy Vice President, Mark A. Rucker, Deputy Administrator, Management, FSA
Deputy Vice President, Bradley Karmen, Acting Deputy Administrator, Farm Programs, FSA
Deputy Vice President, Linda Treese, Acting Deputy Administrator, Field Operations, FSA
Deputy Vice President, Joy Harwood, Director, Economic & Policy Analysis Staff, FSA
Deputy Vice President, James E. Tillman Sr. Acting Associate Chief, Conservation, NRCS
Deputy Vice President, Jimmy Bramblett, Deputy Chief, Programs, NRCS
Deputy Vice President, Thomas W. Christensen, Associate Chief, Operations, NRCS
Secretary, Robert Stephenson, Director, Office of Business and Program Integration, FSA
Assistant Secretary, Monique B. Randolph, Staff Specialist, FSA
Chief Financial Officer, Radha Sekar, Chief Financial Officer, FSA
Treasurer, John S. White, Acting Director, Financial Management Division, FSA
Chief Accountant, Sherry A. Laws, Center Director, Policy, Accounting, Reporting, and Loan Center, Financial Management Division, FSA

Advisors

General Counsel, Vacant*, Office of the General Counsel (OGC)
Associate General Counsel, Ralph A. Linden, Natural Resources and Environment Division
White House Liaison, Carly Miller

* Pending Senate confirmation and/or appointment by the President.

CCC Program Areas

CCC funds many programs that fall under multiple agencies within USDA. Each CCC-funded program helps achieve parts of both CCC's mission and the strategic plan of the agency under which the program falls. CCC's mission and strategic goals are achieved through the successful implementation of the following key program areas:

Income Support and Disaster Assistance – Income support and disaster assistance programs provide financial assistance to protect farmers and ranchers from fluctuations in market conditions and unexpected natural or man-made disasters. Assistance is provided through income support and disaster assistance programs, administered by FSA.

Conservation – Conservation programs offer farmers and ranchers a variety of financial and economic incentives to conserve natural resources on the nation's privately owned farmlands. These programs focus on reducing erosion, protecting streams and rivers, restoring and establishing fish and wildlife habitats, and improving air quality through several conservation incentive payments, technical assistance, and cost-share programs. FSA and NRCS administer CCC conservation programs.

Commodity Operations and Food Aid – FSA oversees the procurement, acquisition, storage, disposition, and distribution of commodities, and the administration of the United States Warehouse Act (USWA). These programs help achieve domestic farm program price support objectives, produce a uniform regulatory system for storing agricultural products, and ensure the timely provision of food products for domestic and international food assistance programs and market development programs.

Foreign Market Development Programs and Export Credit Programs – USDA agencies work to expand and maintain markets for agricultural products, and are critical to the long-term health and prosperity of the U.S. agricultural sector. With 95 percent of the world's population living outside the United States, future growth in demand for food and agricultural products will occur primarily in overseas markets.

- Foreign Market Development Programs - CCC funds used in market development programs play a critical role in helping to open new markets and in facilitating U.S. competitiveness, by providing technical assistance in the utilization of U.S. commodities and promoting the quality, availability, value and health characteristics of U.S. products. Working in partnership with U.S. private industry associations, the programs provide support for the growth of mutually beneficial trade. FAS administers CCC foreign market development programs.

- Export Credits – CCC export credit guarantee programs, administered by FAS in conjunction with FSA, serve to increase and maintain exports of U.S. agricultural commodities by expanding access to trade finance which assists countries, particularly developing countries and emerging markets, in meeting their food and fiber needs. To expand exports of U.S. agricultural commodities, the export credit programs support financing of sales of agricultural commodities, and sales of goods and services to establish or improve facilities and infrastructure in emerging markets.

Expected Market Conditions and Government Payments[1]

After three consecutive years of decline, farm producers' net cash income[2] and net farm income[3] are both forecast to rise in 2017 relative to 2016[4] estimates. Although prices for many crops continue to be weak, most animal and animal product prices were expected to rise. The key driver behind rising income forecasts for the year were greater quantities of crops and livestock sold.

Based on USDA/Economic Research Service (ERS) projections made in August 2017, net cash farm income for 2017 was forecast at $100.4 billion, up 12.6 percent from 2016. Net farm income, a broader measure of profits, was forecast to increase more than 3 percent relative to 2016. The stronger forecast growth in net cash income was largely due to an additional $9.7 billion in cash receipts from the sale of crop inventory.

Government payments made in 2017 -- those made "directly" by the U.S. Government to farmers and ranchers such as Price Loss Coverage (PLC), Agriculture Risk Coverage (ARC), and conservation program payments -- were forecast to decline slightly to about $13 billion. PLC and ARC were collectively expected to account for almost 65 percent of all direct government payments in 2017.

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[1] The data in this section was drawn from the "2017 Farm Sector Income Forecast" published on August 30, 2017 (USDA, Economic Research Service). Commodity supply, demand, and price projections are published monthly by USDA in the World Agricultural Supply and Demand Estimates (USDA, Office of the Chief Economist). In addition, USDA's 10-year supply, demand and price projections are issued annually in February (USDA, Office of the Chief Economist).

[2] Net cash income is gross cash income (for example, from cash receipts for crop and livestock sales, and from government payments) less all cash expenses generated during the calendar year including for feed, seed, fertilizer, property taxes, interest on debt, wages to hired labor, contract labor and rent to non-operator landlords. Higher net cash income means more cash available to draw down debt, pay taxes, cover family living expenses, and invest. It is not a comprehensive measure of profitability, however, because it does not account for noncash income changes, including adjustments in farm inventory, accounts payable, accounts receivable, and capital consumption.

[3] Net farm income refers to the return (both monetary and non-monetary) to farm operators for their labor, management and capital, after all production expenses have been paid (that is, gross farm income minus production expenses). Net cash income includes only cash receipts and expenses; net farm income is net cash income plus the value of home consumption, changes in inventory, capital replacement, and implicit rent and expenses related to the farm operator's dwelling that are not reflected in cash transactions during the year.

[4] All data in this section, unless otherwise noted, are on a calendar year basis.

Cash Receipts Were Expected to Increase in 2017

The August projections indicate that farm producers' cash receipts were forecast to increase 4 percent in 2017. Rising crop and livestock quantities sold account for nearly 90 percent of this increase. Crop cash receipts—the cash income from crop sales during 2017—were forecast to increase slightly from 2016 levels. In contrast, cash receipts for broilers, hogs, and cattle/calves were expected to see strong growth in 2017 after posting significant declines in 2016.

Crop cash receipts were forecast to increase just $0.5 billion in 2017 as prices continued to decline for many field crops. Corn receipts were expected to decline for the fifth consecutive year. Expected weakening of calendar-year corn prices more than offset an expected increase in quantity sold, leading 2017 corn cash receipts to fall 0.7 percent from 2016. Wheat receipts were expected to decline 3.3 percent from 2016 despite an expected price increase as quantities sold were expected to decline. Higher soybean receipts (up $2.4 billion) in 2017 reflect higher soybean prices and an increase in quantities sold. Rice receipts were forecast to decline slightly in 2017. The expected increase ($1.5 billion or 25.6 percent) in 2017 cotton receipts reflected expected higher prices and quantities sold for long staple (Pima) and increased quantities sold for upland cotton, outweighed a small price decline.

Vegetable and melon cash receipts were expected to rise nearly 7 percent in 2017. Dry bean receipts were expected to rise almost 9 percent, reflecting an anticipated rise in quantities sold in 2017. Potato receipts were expected to rise over 6 percent, reflecting higher quantities sold at higher prices. Cash receipts for fruits and nuts were expected to decline by over 17 percent in 2017, driven primarily by lower expected prices.

Milk receipts were expected to increase over 11 percent in 2017, reflecting increases in both price and quantity sold. Cash receipts from cattle and calves were expected to rise by 5.7 percent in 2017 as cattle/calf prices declined slightly but quantities sold rise. Hog prices and quantities sold were both expected to rise, with hog cash receipts expected to increase 14.6 percent. Poultry and egg cash receipts were expected to increase by over 8 percent in 2017, reflecting greater quantities sold at higher prices.

Farm Production Expenses Were Expected to Increase

For 2017, producers' production expenses were forecast higher at $355 billion, up from $350 billion in 2016. Continued forecast declines in expenses for inputs produced on farms -- including feed and seed -- were offset by forecast increases in fuel, labor, and interest expenses.

A forecast 10.8 percent increase in spending on fuels and oils was expected to reverse the recent trend toward lower fuel expenses. In addition, labor costs were forecast to increase in 2017 by over 4 percent as wage rate increases put upward pressure on hired labor costs. Interest expenses were expected to increase by 12.8 percent, driven by higher forecast debt levels and rising interest rates. Net rent expense—the amount paid to rent land -- was forecast to increase by 1.9 percent in 2017. As in recent years, the majority of net rent expense will be paid to non-operator landlords (farmland owners who do not themselves farm) versus landlords who are also operators.

Fertilizer, lime, and soil conditioner expenses were forecast lower by more than $2 billion (down 9.9 percent). Fertilizer prices were lower and there were fewer acres planted to key field crops in 2017 (though yields and total production were expected to increase).

Farm Equity Expected to Increase

USDA's ERS expects farm sector equity in 2017 to increase by 3.9 percent and debt-to-asset levels for the sector were forecast to be essentially unchanged. Producers' farm sector assets were forecast to increase 4 percent and debt by 4.4 percent relative to 2016.

Farm sector assets were forecast to increase by 4 percent in 2017, largely due to real estate assets, the value of which was forecast to increase $113.5 billion (4.6 percent). Farm sector debt was forecast to rise $16.5 billion (4.4 percent), with real estate debt forecast to rise 7.5 percent in 2017 after increasing 8 percent the previous year. Non-real estate debt was forecast to be relatively unchanged from 2016.

Government Payments Were Forecast Lower

Direct government farm program payments are those made "directly" by the U.S. Government to farmers and ranchers. They include payments from the programs created in the The Agricultural Act of 2014 (2014 Farm Bill) as well as other programs, but do not include Federal Crop Insurance Corporation (FCIC) insurance indemnity payments. Direct government farm program payments in 2017 were forecast to decline by 0.2 percent from 2016 levels (see Chart 1) . While PLC and overall conservation payments are expected to increase in 2017, declines are anticipated for ARC.

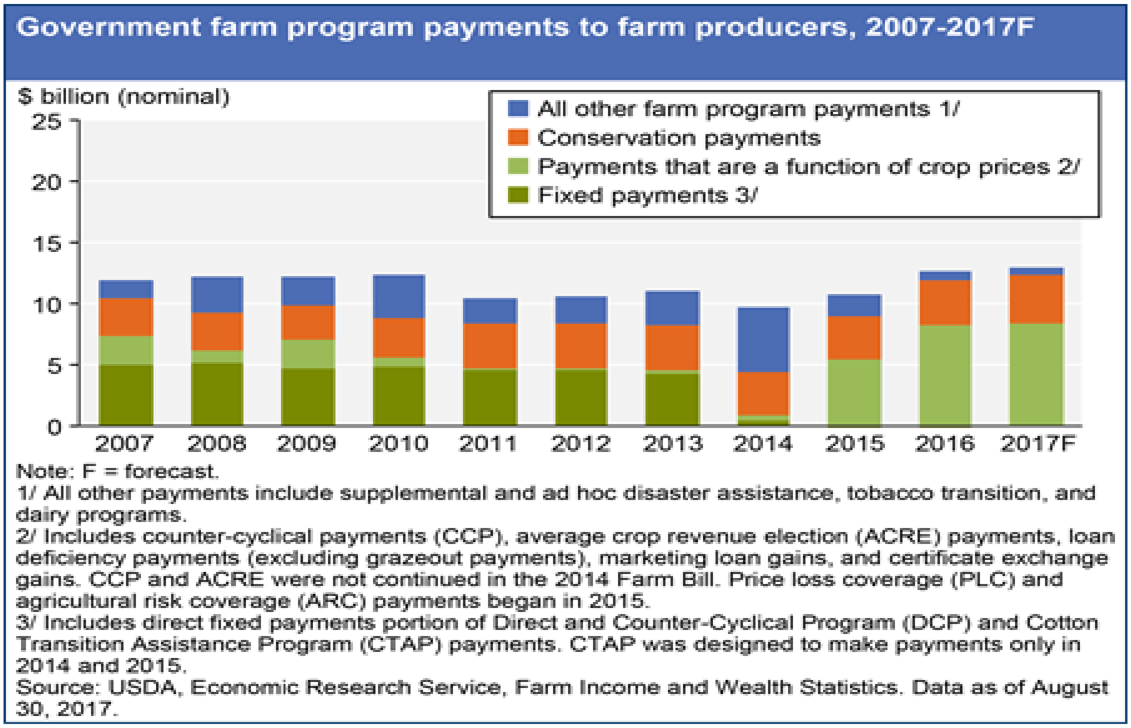
PLC is a price-based program while ARC is a revenue-based program. PLC payments were expected to increase almost $1.6 billion (to $3.5 billion) while ARC payments were expected to decline about $1.2 billion (to $4.9 billion). Corn base acres[5] were expected to receive the majority of ARC payments in 2017. Almost all corn and soybean base acres, and almost 60 percent of wheat base acres, elected the ARC program for 2014-2018 crops.

In addition to introducing the ARC and PLC programs, the 2014 Farm Bill reduced the scope of the CRP. The CRP enrollment ceiling for FY 2017 was 24 million acres, down from the 32 million acre ceiling in the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill). Even though acreage declined, CRP payments do not vary greatly from year-to-year (at slightly less than $2 billion) because land rents have increased (until recently) and more costly practices — such as filter strips and shelterbelts — have been enrolled.

Payments for three programs were expected to decline. Marketing Loan Benefits were forecast to decrease $194.9 million (94.6 percent) from 2016 levels due to higher 2017 prices for upland cotton. Livestock disaster payments were forecast to decline $98.8 million (15 percent) in 2017 mostly due to expected declines in the Livestock Forage Program. The Dairy Margin Protection Program was forecast to return $5 million to the Federal Government in 2017, following $10.4 million in payments to dairy producers in 2016. This reflects the impact of higher milk prices in 2017.

[5] Except for those program acres formerly associated with cotton, ARC/PLC payments are made on crop-specific "base" acres, which reflect historical plantings to a crop.

Chart 1: Government Payments 2007-2017F



2017 Performance Highlights Summary

The CCC mission and strategic goals are achieved through the successful implementation of key programs.

CCC will meet its FY 2017 goals for both riparian/grass buffers and restored wetland acres. However, CRP enrollment has declined from its peak in 2008 due to disruptions in the CRP authorization, spiking crop prices, and acreage caps. These factors reduced the availability for enrollment, and encouraged landowners to bring land back into crop production. Total CRP enrollment currently stands at 23.5 million acres. These acres help reduce nitrogen, phosphorus, and sediment pollution and runoff by more than 85 percent annually.

The ARC and PLC programs enable producers to make a one-time election to reallocate crop bases, update program payment yields and select the type of coverage (price protection, county revenue protection, and/or individual revenue protection) for crop years 2014-2018. CCC will achieve its target this year by enrolling 1.65 million farms in these important programs.

The 2017 CCC performance estimate of averaging 363 days between warehouse examinations will meet its annual goal. CCC has implemented a licensing requirement, including inspection and examination procedures for all port and trans-loading facilities receiving, storing, handling, and shipping export food assistance commodities for:

- the USAID and CCC food assistance programs, including Public Law (P.L.) 480 Title II and III, Food for Progress and Section 416(b) of the Agricultural Act of 1949

- the McGovern-Dole International Food for Education and Child Nutrition programs

Commodities purchased by CCC are stored or handled only through International Food Aid Warehouses licensed under the USWA.

In FY 2017 (as of September 15, 2017), the CCC Export Credit Guarantee Program supported $1.53 billion in exports of U.S. commodities. Program use is tied to the perception of risk trends in the international financial markets. For 2017 program use is down by approximately 20 percent versus the same time period in fiscal year 2016. The program maintained its negative budget subsidy rate in fiscal year 2017, meaning that income was projected to be sufficient to cover the programs operating costs and any losses.

Financial Highlights
(Related to the Consolidated Balance Sheet)

CCC provides accurate, timely and useful financial information to all stakeholders in order to facilitate decision-making in execution of CCC's mission. The information that follows has been prepared from the accounting records of the Corporation as of September 30, 2017, in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP) promulgated by the FASAB. CCC has a parent-child relationship with USAID. Included in the financial statements is the resulting balances and activity of this parent-child relationship.

Assets:

The Consolidated Balance Sheet reflected Total Assets of $5.98 billion as of September 30, 2017. This mainly consisted of $2.86 billion in Fund Balance with Treasury and $2.42 billion in Direct Loans and Loan Guarantees, Net.

Table 1: Summary of Assets

	Dollars In Millions
As of September 30	2017
Fund Balance with Treasury	$ 2,855
Accounts Receivable, Net	127
Commodity Loans, Net	394
Direct Loans and Loan Guarantees, Net	2,417
Other	183
Total Assets	$ 5,976

Liabilities:

The Consolidated Balance Sheet reflected Total Liabilities of $20.25 billion as of September 30, 2017. This mainly consists of $9.95 billion in Debt to the Treasury and $8.89 billion in Accrued Liabilities.

Table 2: Summary of Liabilities

	Dollars In Millions
As of September 30	2017
Debt to the Treasury	$ 9,950
Resources Payable to Treasury	856
Excess Subsidy Payable to Treasury	182
Grants Payable	226
Accrued Liabilities	8,893
Other	143
Total Liabilities	$ 20,250

Ending Net Position:

CCC's Net Position, as of September 30, 2017, was ($14.27) billion. Net Position is the sum of the Unexpended Appropriations, Cumulative Results of Operations and Capital Stock. Refer to Note 1 - Significant Accounting Policies-Consolidated Balance Sheet, under Reporting Entity, for additional information on Capital Stock.

Management Controls, Systems, and Compliance with Laws and Regulations

FMFIA and FFMIA Assurance Statement

The Assurance Certification is due to the Department before the final independent auditor's report is provided to CCC. Therefore, in order to prepare the assurance statement and send it through the chain of command for signatures, CCC must assess reportable internal control weaknesses and non-conformances based on available information. The FY 2017 final audit report contained new reportable conditions, and that new information is reflected in the sections that follow (FMFIA, FFMIA and Antideficiency Act (ADA)) and a revised assurance statement will be submitted during the second quarter of FY 2018. Refer to Summary of Management Assurances in Part IV of this report.

Federal Managers' Financial Integrity Act

Overview

The Federal Managers' Financial Integrity Act (FMFIA) requires ongoing evaluations of internal controls and financial management systems. These evaluations lead to an annual statement of assurance that:

- Obligations and costs comply with applicable laws and regulations;
- Federal assets are safeguarded against fraud, waste, abuse, and mismanagement;
- Transactions are accounted for and properly recorded; and
- Financial management systems conform to standards, principles, and other requirements to ensure that federal managers have timely, relevant, and consistent financial information for decision-making purposes.

CCC evaluated its internal controls in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

CCC operates a comprehensive internal control program. This program ensures compliance with the requirements of FMFIA and other laws, and OMB Circular A-123, Appendix A. The Corporation, and all managers conducting Corporation business or acting on behalf of the Corporation must ensure that their programs operate efficiently and effectively, and comply with relevant laws. They must also ensure that financial management systems conform to applicable laws, standards, principles, and related requirements. In conjunction with the Department of Agriculture's Office of Inspector General and the Government Accountability Office (GAO), CCC's management works decisively to determine the root causes of its material weaknesses so that it can direct resources to focus on their remediation.

CCC remains committed to reducing and eliminating the risks associated with its deficiencies. It also strives to efficiently and effectively operate its programs in compliance with FMFIA and other applicable laws and regulations.

Fiscal Year 2017 Results

Based on the results of the evaluations, CCC can provide reasonable assurance that internal controls are operating effectively, except for the material weaknesses discussed in this section. CCC had six existing material weaknesses related to FMFIA at the beginning of the fiscal year. These were related to Funds Control Management, Financial Reporting, Accounting for Parent-Child Transactions, Accounting for Budgetary Transactions, Accounting Estimates, and Maintenance of Accounting Records. Details regarding these material weaknesses can be found in the Summary of Management Assurances section of this report. The material weakness related to financial reporting was resolved during the fiscal year. The material weakness related to the parent-child relationship was split and consolidated with maintenance of accounting records, which was resolved during the fiscal year, and accounting estimates, which remains unresolved. As a result, CCC finished FY 2017 with three material weaknesses related to Funds Control Management, Accounting for Budgetary Transactions, and Accounting Estimates. Additionally CCC had one significant deficiency related to general information technology controls at the beginning of FY 2017, which was resolved during the fiscal year. CCC also has one existing system non-conformance related to Funds Control Management, which is expected to be resolved by the end of FY 2019.

Additionally, related to internal OMB Circular A-123, Appendix A, testing, CCC had two material weaknesses in internal control over financial reporting, related to reconciling fund balance with Treasury and accounting for Commodity Certificate Exchanges (CCE), and one significant deficiency, related to maintaining, controlling and monitoring CCC's accounting system of record, at the beginning of the year. The material weakness related to CCE was resolved during the year. The material weakness related to fund balance with Treasury was reassessed and downgraded to a significant deficiency. The significant deficiency related to CCC's accounting system was reassessed and downgraded to a control deficiency.

The CFO's Statement of Assurance provides reasonable assurance that CCC's system of internal control complies with FMFIA objectives. For additional details on the results reported here, see the Summary of Management Assurances section of this report.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) is designed to improve financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of federal programs. FFMIA requires that financial management systems provide reliable, consistent disclosure of financial data in accordance with U.S. GAAP and standards. These systems must also comply substantially with the following three areas of FFMIA: (1) federal financial management system requirements; (2) applicable federal accounting standards; and (3) the United States Standard General Ledger (USSGL) at the transaction level.

During FY 2017, CCC evaluated its financial management systems to assess substantial compliance with FFMIA. CCC management made the determination that CCC demonstrated substantial compliance with Sections 1 and 2; however, CCC is not substantially compliant with Section 3, the USSGL at the transaction level.

CCC has completed the development of a fully integrated funds control system, electronic Funds Management System (eFMS) / Common Obligation Framework (COF), within the CORE financial management system. This system is integrated with CCC's general ledger system at the transaction level. The eFMS/COF provides management with timely information to monitor and control the status of budgetary resources recorded in the general ledger. CCC continues to implement programs into eFMS/COF for full funds control at the transaction level. CCC anticipates that when all material programs are fully implemented, CCC will be substantially compliant with Section 3 for FFMIA.

CCC management continued to make significant progress in FY 2017 toward implementing complete funds control; however, the lack of the financial system functionality to record all obligations at the transaction level at the time the obligation occurs increases the risk that funds could be disbursed or obligations incurred with no or insufficient budget authority to fund the expense or obligation. Although CCC implemented manual controls in order to compensate for the system's inherent limitation, the controls may not be adequate to eliminate the risks of an ADA violation occurring and may not prevent or detect violations timely.

CCC implemented several business process and system improvements to record, track, and report obligations at the detail transaction level, which is a major step towards mitigating CCC's material weakness. A phased implementation has been in progress to bring various CCC program and financial management applications into full compliance with FFMIA. Complete implementation for full funds controls is targeted for completion in FY 2019.

Antideficiency Act

CCC did not have any confirmed violations of the ADA during Fiscal Year 2017. In FY 2016, CCC identified a potential ADA violation that may have occurred in CCC expenditures. CCC expended approximately $37 million in interest to Treasury, more than the apportioned amount of $29.9 million. CCC sought further review of the legal authority of CCC with respect to the apportionment requirements with OMB and awaits their response. CCC will notify OGC, if needed.

CCC management, in consultation with OMB, determined that CRP rental payments should be apportioned and obligated in the year of contract approval, for the full contract amount. CCC also determined that this is a retrospective adjustment. An apportionment was received during FY 2017 to revise the budgetary resources necessary for the retrospective (prior year) adjustment, as well as the current year authority for FY 2017 obligations. CCC will submit a statement of facts to USDA Office of General Counsel who will then provide a legal opinion on whether or not CCC committed a reportable ADA violation in the current or prior period(s).

Limitations of the Consolidated Balance Sheet

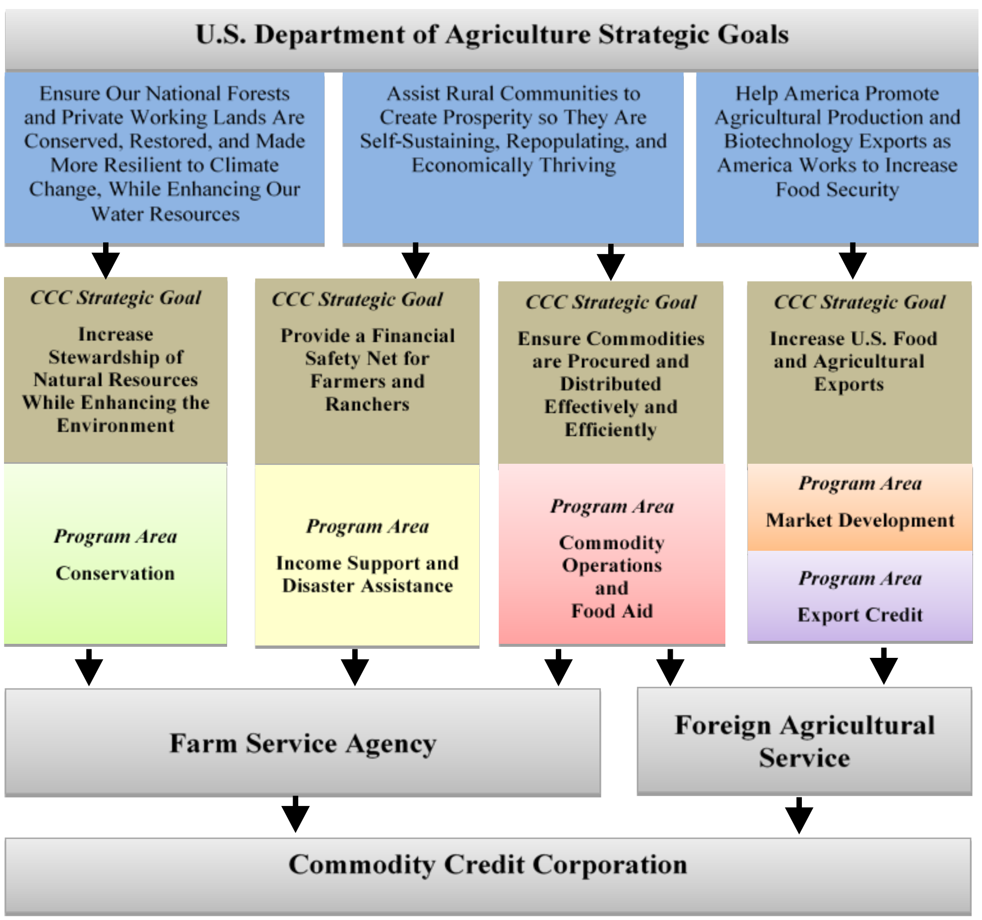
The Consolidated Balance Sheet has been prepared to report the financial position of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b), *Financial Statements of Agencies*. While the balance sheet has been prepared from the books and records of the entity in accordance with U.S. GAAP for federal entities and the formats prescribed by OMB, the statement is in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statement should be read with the realization that it is for a component of the U.S. Government, a sovereign entity.

Part II: Performance Section (Unaudited)

CCC Strategic Goals

Given that most of CCC services are carried out by the employees of FSA, AMS, NRCS, FAS and USAID, the mission of CCC aligns towards the strategic goals of the Department as well as to the strategic goals of FSA and FAS. Each of these strategic goals, in turn, has objectives that support the results that each agency wants to achieve. The performance measures allow CCC to tangibly measure how well it achieved these objectives without creating a duplicate reporting burden. The chart below summarizes the relationship between the current USDA strategic goals and each agency's strategic goals, and CCC program areas. USDA is in the process of developing strategic goals for FY 2018 and beyond. At the time of this report, the goals were not yet all released to the public.

Chart 2: Summary of Strategic Goals



Conservation Program Area

MISSION ELEMENT

Conserving soil, air, and water resources and protecting and improving wildlife habitats

Program Overview

CRP encourages producers to plant long-term, resource-conserving perennial vegetative covers to improve water and air quality, control soil erosion, and enhance wildlife habitat on land formerly used in agricultural production. In return, the program provides participants with annual rental and cost-share payments and technical assistance. Contract terms run between 10 and 15 years. CRP is designed to restore and enhance wetland and riparian areas to improve water quality and provide quality habitat for waterfowl and other wildlife.

The program includes several initiatives for wetland restoration and enhancement. CRP wetland initiatives now include the 581,000-acre Floodplain Wetland Restoration Initiative, the 250,000-acre Bottomland Hardwood Timber Initiative, the 768,000-acre Non-Floodplain and Playa Wetland Restoration Initiative, and the 600,000-acre Prairie Pothole Duck Nesting Habitat Initiative. In addition to accepting enrollment in these initiatives on a continuous basis, additional financial incentives are provided. CRP also includes a number of riparian practices that are accepted on a continuous basis. A component of CRP, "Grasslands", is designed to enroll lands already in grass covers. These are primarily used for grazing, and the purpose of the program is to keep these lands from being converted to cropland or to development.

Analysis of Results

CRP buffer practice enrollment is estimated to be at 1.60 million acres at the end of FY 2017. Wetland practice enrollment is at 2.16 million acres. Both performance measures have had mixed results since FY 2014 due to the pressures outside CCC’s control, like increased crop prices and increased demand for agricultural commodities.

Total CRP enrollment currently stands at 23.5 million acres. These acres help reduce nitrogen, phosphorus, and sediment pollution by more than 85 percent annually. Buffers intercept runoff into adjacent land during crop production. CRP also helps increase carbon sequestered in enrolled soils and vegetation. Overall, CRP efforts contribute to increased wildlife populations, and have added more than two million ducks to the Prairie Pothole Region annually, protecting Sage Grouse populations in Eastern Washington and Lesser Prairie Chicken populations in the southern Great Plains, and increasing ring-necked pheasant and other grassland bird populations across the nation.

Table 3: Summary of Performance Measure for Riparian and Grass Buffers Acreage

Performance Measure	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017		
					Target	Actual	Result
CRP: acres of riparian and grass buffers (cumulative and in million acres)	1.88	1.82	1.77	1.70	1.70	1.60	Met
Threshold range: +/- 0.5 million acres **Rationale for Met Range:** Management Determination							
Data Assessment of Performance Measure							
Data source: The data source for this measure is the National CRP Contract Data Files. **Completeness of Data:** Data reported are estimated final results for the fiscal year based on data available as of September 2017. The targets and actual data are cumulative (acres under contract at the end of a fiscal year). The measure reports national acres under contract with the following buffer practices: Grass Filter Strips, Riparian Buffers, Wildlife Habitat Buffers on Marginal Pasturelands, and Buffers established under the State Acres for Wildlife Enhancement. There are no known data limitations. **Reliability of Data:** USDA considers the data to be reliable. **Quality of Data:** Overall, the quality of the data is good.							

Table 4: Summary of Performance Measure for Restored Wetland Acreage

Performance Measure	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017		
					Target	Actual	Result
CRP: restored wetland acreage (million acres)	2.09	2.00	1.93	2.09	1.90	2.16	Met

Threshold range: +/- 0.5 million acres

Rationale for Met Range: Management Determination

Data Assessment of Performance Measure

Data source: The data source for this measure is the National CRP Contract Data Files.

Completeness of Data: Data reported are estimated final results for the fiscal year based on data available as of September 2017. The targets and actual data are cumulative (acres under contract at the end of a fiscal year). The measure reports national acres under contract with the following wetland practices: Wetland Restoration, Marginal Pastureland Buffers, Bottomland Trees, Shallow Water Areas for Wildlife, Duck Nesting Habitat, and Farmable Wetlands Programs. There are no known data limitations. Acres reported include associated upland buffers.

Reliability of Data: USDA considers the data to be reliable.

Quality of Data: Overall, the quality of the data is good.

Challenges for the Future

CRP enrollment has declined from its peak in 2008 due to disruptions in the CRP authorization, spiking crop prices, and legislative cap of 24 million acres by October 1, 2017. These factors have reduced the availability for enrollment, and have encouraged landowners to bring land back into crop production.

Income Support and Disaster Assistance Program Area

MISSION ELEMENT

Stabilizing, supporting, and protecting farm income and prices

Program Overview

CCC provides millions of dollars in income support and disaster assistance payments each year to agricultural commodity producers. These payments stabilize, support, and protect farm income. CCC payments for these programs are driven by commodity market prices, payment eligibility rules established in public policy, and natural disasters. CCC payments are best explained in the context of a commodity crop year which does not directly correspond to financial statement reporting.

The ARC and PLC programs enable producers to make a one-time election to reallocate crop bases, update program payment yields and select the type of coverage (price protection, county revenue protection, and/or individual revenue protection) for crop years 2014-2018. Enrollment in the elected coverage must be done on an annual basis.

CCC offers additional programs and services to help communities, farmers, ranchers and businesses mitigate and recover from natural disaster events.

- Noninsured Crop Disaster Assistance Program (NAP): reauthorized by the 2014 Farm Bill and administered by CCC, provides financial assistance to producers of non-insurable crops to protect against natural disasters that result in lower yields or crop losses, or prevents crop planting.

- Livestock Forage disaster Program (LFP): provides compensation to eligible livestock producers that have suffered grazing losses due to drought or fire on land that is native or improved pastureland with permanent vegetative cover or that is planted specifically for grazing.

- Livestock Indemnity Program (LIP): provides benefits to livestock producers for livestock deaths in excess of normal mortality caused by adverse weather or by attacks by animals reintroduced into the wild by the Federal Government.

- Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish (ELAP): offers emergency assistance to eligible producers of livestock, honeybees and farm-raised fish for losses due to disease (including cattle tick fever), adverse weather, or other conditions, such as blizzards and wildfires, not covered by LFP and LIP.

- Tree Assistance Program (TAP): provides financial assistance to qualifying orchardists and nursery tree growers to replant or rehabilitate eligible trees, bushes, and vines damaged by natural disasters.

The Farm Storage Facility Loan Program (FSFL) offers low-interest financing so producers can build or upgrade facilities to store commodities. Eligible commodities include grains, oilseeds, peanuts, pulse crops, hay, honey, renewable biomass commodities, fruits and vegetables, floriculture, hops, maple sap, milk, cheese, yogurt, butter, eggs, meat/poultry (unprocessed), rye and aquaculture. Eligible facility types include grain bins, hay barns, bulk tanks, and facilities for cold storage. Drying and handling and storage equipment is also eligible, including storage and handling trucks. Eligible facilities and equipment may be new or used, permanently affixed or portable.

The Margin Protection Program for Dairy Producers (MPP-Dairy) provides dairy producers catastrophic coverage, at no cost to the producer, other than an annual $100 administrative fee; and various levels of buy-up coverage. Catastrophic coverage provides payments to participating producers when the national dairy production margin is less than $4.00 per hundredweight (cwt). The national dairy production margin is the difference between the all-milk price and average feed costs. Producers may purchase buy-up coverage that provides payments when margins are between $4.00 and $8.00 per cwt. To participate in buy-up coverage, a producer must pay a premium that varies with the level of protection the producer elects.

Marketing Assistance Loans (MAL) provide producers interim financing at harvest time to meet cash flow needs without having to sell their commodities when market prices are too low. Market loan repayment provisions specify, under certain circumstances, that producers may repay loans at less than principal plus accrued interest and other charges. Alternatively, Loan Deficiency Payment (LDP) provisions specify that, in lieu of securing a loan, producers may be eligible for an LDP. MALs can either be redeemed by repayment or by delivering the pledged collateral to CCC as full payment for the MAL at maturity.

Analysis of Results

As of September 2017:

- 1.66 million farms were enrolled in ARC/PLC in FY 2016. Of those farms, over $7.8 billion in payments were triggered in FY 2017.
- $160.1 million in NAP payments were issued in FY 2017 which includes 2016 and 2017 crop losses to date.
- Over $339 million in LFP payments were issued to date in FY 2017.
- Over $23 million in LIP payments were issued to date in FY 2017.
- Over $18 million in ELAP payments were issued to date in FY 2017.
- Over $6 million in TAP payments were issued to date in FY 2017.
- Over $170 million, from over 2,000 FSFLs, were issued to date in FY 2017.
- For crop year 2017, there have been over 1,500 MALs disbursed. Loan activity for the 2017 crop year will increase as the harvest of most commodities is just beginning. The loan availability period for most crop year 2017 commodities continues until the end of May 2018. For crop year 2017, there have not been any LDPs to date because the market price for the eligible commodities has been above the loan rate.
- No MPP-Dairy payments to dairy producers have been issued in FY 2017.

In the areas affected by 2017 hurricanes, NAP, LIP, ELAP and TAP provide much needed recovery support to affected crop producers, livestock producers, orchardists, and nursery tree growers. Assistance under NAP requires that coverage was obtained by the application closing date. However, assistance under LIP, ELAP and TAP is available to eligible applicants after the disaster occurred.

Table 5: Summary of Performance Measure for ARC/PLC program

Performance Measure	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017		
					Target	Actual	Result
Number of Farms enrolled in ARC/PLC (in millions)	N/A	1.45	1.48	1.66	1.66	1.65	Met
Threshold range: +/- 10,000 Farms **Rationale for Met Range:** Management Determination							
Data Assessment of Performance Measure							
Data source: ARC/PLC contract signup application **Completeness of Data:** ** Data reported are based on data available as of September 2017. **Reliability of Data:** USDA considers the data to be reliable. **Quality of Data:** Overall, the quality of the data is good.							

Challenges for the Future

Government payments to farmers are expected to decline over the next decade, but the magnitude of the decline is somewhat uncertain. New safety net programs under the 2014 Farm Bill have substantial outlay potential depending on the extent and duration of market swings, producer decisions on base reallocation and yield updates, and their choices to participate in the new ARC or PLC programs.

Commodity Operations and Food Aid Program Area

MISSION ELEMENT

Maintaining balanced and adequate supplies of agricultural commodities and aiding in their orderly distribution

Program Overview

CCC Commodity Operations manages the acquisition, handling, storage, transportation, and disposition of government-owned agricultural commodities. Commodity Operations performs licensing and examination activities in accordance with the USWA, to maintain acceptable standards for the protection of stored commodities.

CCC is also responsible for administering storage agreements that commercial warehouse operators establish with CCC. The agreements are for CCC interest commodities, including commodities owned by CCC or pledged as collateral for MALs. These programs help achieve domestic farm program price support objectives, ensure the timely provision of various commodities for international food assistance, and administer a uniform regulatory system for storing agricultural products. Warehouse operators issue negotiable warehouse receipts to producers under the provisions of the USWA. Producers who use the stored commodity as collateral for a MAL may deliver the warehouse receipts to CCC as security for a nine-month MAL.

CCC also works to provide adequate, secure storage capacity to maintain quality and improve the purchase and delivery of food aid. Food assistance purchases support international food aid through USAID, FAS and the United Nations' World Food Program.

Analysis of Results

The more frequently warehouses are examined, the sooner potential compliance issues, pest infestation, or deterioration of quality for commodities in store are discovered. The 2017 CCC performance estimate of 363 days (average) between warehouse examinations meets the 2017 target. The increasing number of commodity warehouses and the increasing capacities of licensed warehouses within the USWA are the major factors in influencing the number of days between examinations. The addition of 19 International Food Aid warehouses licensed in FY 2013 is also a contributing factor.

Table 6: Summary of Performance Measure for Commodity Operations Program

Performance Measure	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017		
					Target	Actual	Result
Average time between warehouse examinations (in days)	358	365	365	365	365	363	Met

Threshold range: +/- 25 days

Rationale for Met Range: Management Determination

Data Assessment of Performance Measure

Data source: The data source for this measure is internal Deputy Administrator for Commodity Operations files.

Completeness of Data: Data reported are estimated final results for the fiscal year based on data available as of September 2017. The targets and actual data are annual.

Reliability of Data: USDA considers the data to be reliable.

Quality of Data: Overall, the quality of the data is good.

Challenges for the Future

A challenge is having examiner resources available to maintain the timeliness of examinations. The USWA-licensed warehouses represent more than half of all licensed grain, cotton, and peanut warehouse capacity in the United States. The USWA trend lines are for additional warehouses to be licensed as well as increased storage capacities of warehouses currently under license. CCC examination demands, especially in sugar and cotton warehouses, are on the increase. Marketing and transportation complexities in the commodity industry are also expanding. The implementation of non-traditional examination procedures and use of electronic mediums will provide efficiencies in the examination process. Management will need to be very proactive in balancing work force needs with budgetary constraints while meeting the demand of the commodity industry and CCC.

Market Development Program Area

MISSION ELEMENT

Developing new domestic and foreign markets and marketing facilities for agricultural commodities

Program Overview

One-third of all U.S. agricultural cash receipts come from export sales, making the economic well-being of rural America heavily dependent on international trade. U.S. farmers and ranchers are among the worlds' most productive and efficient. However, they face complex and unfair obstacles in the global marketplace, where 95 percent of the world's consumers live. A cooperative effort with U.S. industry is needed to ensure U.S. producers have fair market access, a strong understanding of key market trends, and support in overcoming constraints such as tight credit in international markets.

CCC supports U.S. industry efforts to build, maintain, and expand overseas markets for U.S. agricultural, fish, and forest products. On behalf of CCC, the FAS manages several export development programs including the Foreign Market Development (Cooperator) Program (FMD), Market Access Program (MAP), Technical Assistance for Specialty Crops (TASC) Program, Quality Samples Program (QSP), and Emerging Markets Program (EMP). These programs provide matching funds to U.S. non-profit organizations to conduct a wide range of activities including market research, consumer promotion, trade servicing, capacity building, and market access support. Working with the State Regional Trade Groups (SRTG) and other industry organizations, CCC programs also provide funding to encourage Small to Medium-Sized Enterprises (SME) to become active in international markets. FAS staff in over 100 countries around the world support industry efforts by providing market intelligence and introducing U.S. exporters to potential foreign customers. FAS trade services staff, FAS overseas offices and non-FAS co-operators all provide services that help U.S. companies successfully access potential buyers in a wide-range of international trade shows.

Analysis of Results

An "Economic Impact of MAP and FMD" study was conducted by Informa Economics in FY 2016. The study used an export demand model, a different methodology from previous studies, to ensure that results are not overly influenced by repeatedly using the same analytical approach. The recent study also incorporated recommendations from the GAO to include additional variables and provide greater sensitivity analysis on results. The Informa study reported that MAP and FMD programs continue to achieve what Congress intended, that regardless of whether an export demand or market share model is used, or what time period is studied, market development funding has a significant positive impact on exports, the farm economy and the overall U.S. economy.

The study reports overwhelming evidence that export promotion has a positive and statistically significant impact on increasing demand for U.S. exports, even though other demand factors such as price and exchange rates have a greater impact.

- Return on government and private industry investment (Benefit-Cost Ratio or BCR) is consistently high.
- Informa's export demand model determined that return on investment (ROI) from these programs between 1977 and 2014 was $28 for every dollar invested.
- The previous MAP and FMD studies showed returns of $25 to $1 (2007 study) and $35 to $1 (2010 study).
- These results are all well above the average $11 to $1 BCR reported by 27 previous industry-specific export promotion studies.
- Together, the two different approaches (export demand model and market share model) better approximate the range of credible outcomes. Programs contributed an average of $8.2 billion per year, a total of more than $309 billion, to farm export revenue between 1977 and 2014, accounting for 15 percent of all the revenue generated by exports for U.S. agriculture over that time.
- Average annual farm cash income was $2.1 billion higher, and annual average farm asset value was $1.1 billion higher over 2002 through 2014.
- Increased total average annual U.S. economic output by $39.3 billion, gross domestic product (GDP) by $16.9 billion and labor income by $9.8 billion over the same time.
- Economic lift created by these programs directly created 239,000 new jobs, including 90,000 farm sector jobs.

There are over 70 non-profit associations that participate in CCC market development programs. They are promoting U.S. products around the world and have an economic impact on virtually every state in the union. A few examples of their successes demonstrate the wide range of participants, activities, and target markets:

- The U.S. Grains Council's (USGC) FMD-funded trade servicing and MAP-sponsored trade teams, developed important trade relationships. When India, Bangladesh's traditional corn supplier was having difficulty supplying their needs, USGC visited buyers to discuss how U.S. supply could be more economical. Bangladesh imported $17 million of U.S corn in CY 2015 and $33.4 million in CY 2016; January-May 2017 exports have already reached $30 million.

- The American Sheep Industry Association's 2017 MAP-funded Chinese trade team visited U.S. wool exporters in Texas, South Carolina and Illinois. This visit resulted in $1 million in immediate sales and interest in carrying out product trials with new types of wool using the QSP. This initiative is expected to result in $3-4 million in sales over the next three years.

- U.S. Wheat Associates (USW) has focused its MAP and FMD programs in South Asian countries on helping to develop end-product industries. USW offers many MAP-funded courses each year throughout Southeast Asia and USW's FMD-funded technical consultant provides in-plant technical assistance. This strategy has resulted in South Asian markets importing 5.5 MMT of U.S. wheat between June, 2016 and May, 2017, valued at over $1 billion in revenue, relative to an annual investment of about $1.7 million in MAP and FMD funds in the region.

- American Plywood Association – The Engineered Wood Association's MAP and FMD funded trade servicing and participation in Australia's and New Zealand's largest building and design tradeshows, provided U.S. industry participants valuable networking opportunities in 2016 and 2017. American engineered wood manufacturers and exporters were able to establish, enhance and expand important business relationships with key building material distributors and reported $9.2 million in sales from participating in these activities.

- The Washington Apple Commission used MAP funding to partner with T-Mall, China's largest online shopping platform, resulting in $275,000 in direct sales. A live broadcast streamed a walk through a Washington apple orchard and their apple packing line, highlighting the technology used in the storage and packing processes. The promotion also included a special feature about Washington apple varieties and growing regions. Washington apple exports to China are projected to reach $48 million from September, 2016, through August, 2017, compared to $32 million the previous year.

- The California Dried Plum Board (CDPB) launched MAP activities from July, 2015, through June 2016, after using the EMP to assess the Polish market. The CDPB promoted the nutritional and health benefits of prunes to address diet-related issues such as cardiovascular disease and diabetes. This messaging has resonated with consumers and U.S. prune exports to Poland reached $5.2 million, 12 percent above the previous year.

- The California Walnut Commission (CWC) reached 56 major food companies in Turkey with walnut samples provided by the QSP and MAP-funded technical seminars, trade shows, and one-on-one meetings. CWC demonstrated the versatility and health benefits of walnuts in culinary applications from bread to cookies, snacks and packaged goods. Turkey has emerged as a top export market for U.S. walnuts, reaching $158 million from September, 2016, through August 2017.

- USA Poultry and Egg Export Council used MAP to sponsor an African Buyers Program in Cape Town, South Africa in September 2016. The program increased buyer interest at a time when U.S. exports faced unfavorable exchange rates and an oil crisis that hampered the region. Twenty U.S. poultry meat exporters traveled to Cape Town to meet with over 60 international buyers from Angola, South Africa, Gabon, Benin, Democratic Republic of Congo, Togo, Congo and Ghana. The U.S. exporters reported over $6 million in sales as a result of the event.

- The Alaska Seafood Marketing Institute’s MAP-funded advertisement in the weekly sales catalog of the Co-op Net Group, a federation of eight consumer cooperatives in Japan, resulted in sales of nearly $500,000 of Alaska seafood featured that week. Nearly 84,000 Co-op members purchased at least one of the products from the Alaska seafood page.

- The Almond Board of California (ABC) used TASC funding to host a delegation from India’s Food Safety and Standards Authority for an industry tour and seminar which helped ABC convince India to modify their labeling requirements. This has helped to maintain U.S. almond exports to India which totaled about $500 million in recent years, about a 75 percent increase since 2011.

- The National Dry Bean Council's 2016 EMP-funded educational seminars for Colombian health professionals helped grow demand for several U.S. bean varieties, with U.S. exports reaching over $8 million that year.

CCC market development programs are used to broaden the base of U.S. exporters, which facilitates economic growth and job creation. A central focus of this effort is to provide additional assistance to SMEs, which are major drivers of new job creation. In 2016 there were about 2,400 SMEs participating in SRTG's market development programs, reporting about $2.5 billion in sales. Trade show participation is a key component of SME program participation and cornerstone of cooperators' MAP and FMD investments.

Table 7: Summary of Performance Measure for Market Development

Performance Measure	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017		
					Target	Actual	Result
Value of agricultural exports resulting from participation in foreign food and agricultural trade shows (million $)	$1,462	$1,500	$1,522	$1,260 [1]	$1,500	$2,326 [2]	Met

Threshold range: +/-$150 million

Rationale for Met Range: Management Determination

Data Assessment of Performance Measure

Data source: Data are collected by surveying U.S. company participants at the end of each trade show. Voluntary survey responses represent about 60 to 90 percent of total company participants at a show. In large, multiproduct shows, about a third to a half of the respondents are companies that are participating with one of the market development organizations. In more product-specific shows, about two-thirds of the respondents are linked to market development funded participants. Data reported are 12-month projected sales.

Completeness of Data: Data are through September 30, 2017.

Reliability of Data: Data are considered reliable.

Quality of Data: Data are self-reported but are considered a good indicator of aggregate company sales, based on independent testing of the data.

[1] FY 2016 Actual Results fell well below past performance due to considerably lower sales from the Brussels Seafood Show, due to the terrorist event that took place in Brussels about a month prior to the show that reduced show participation.

[2] FY 2017 results were expected to return to prior year levels but far exceeded expectations. The Brussels Seafood Expo rebounded significantly from the previous year's event, increasing sales by over $500 million, largely due to the limited participation in FY 2016. The Gulfood Dubai Show also exceeded expectations with increases of nearly $300 million. Neither is expected to continue at this pace. The Dubai Show is maturing and is taking steps to segment product categories to spin off into other shows. The FY 2018 target is $1,700.

Challenges for the Future

USDA's "Outlook for U.S. Agricultural Trade" (AES-101), August 29, 2017, forecast U.S. agricultural trade at $139.8 billion for FY 2017, $10.2 billion above the FY 2016 level. FY 2018 exports are forecast at $139 billion, lowered due to reduced corn and cotton export forecasts. They reported that the dollar had weakened substantially since January 2017, improving U.S. export competitiveness. The report stated, "World per capita GDP growth is expected to reach 1.8 percent in 2017 and 1.9 percent in 2018. This represents a broad-based pickup in growth across developed and developing countries relative to growth of 1.4 percent in 2016. In the key emerging markets of Brazil, Russia, India, Indonesia and China, per capita GDP growth is expected to accelerate to 4.4 percent on average in 2017 and 4.6 percent in 2018. Global trade volume growth is expected to be strong at 5.6 percent in 2017 and retreat to 3.6 percent in 2018. This is still strong growth relative to the 1.6 percent growth in 2015 and 2016."

The report also forecast per capita income growth to improve worldwide. However, challenges remain. Economic growth in Latin America is still expected to remain very slow and commodity export prospects are mixed. U.S. corn exports market share is expected to continue to decline given increased domestic ethanol production and the resulting relatively high corn prices which have stimulated competitor production and exports—reducing the U.S. export forecast to Japan and South Korea. However, on the positive side, overall U.S. exports to China are expected to increase—forecast increased U.S. soy and dairy exports more than offset expected reduced cotton exports; Mexico—expected U.S. export growth in pork and dairy; and Canada--increased forecast U.S. fruit and vegetable exports.

Export Credit Program Area

MISSION ELEMENT

Creating U.S. agricultural export opportunities and enhancing global food security

Program Overview

The primary objective of the CCC Export Credit Guarantee (GSM-102) Program is to increase sales of U.S. agricultural commodities to international markets by facilitating the extension of export credits to countries that have sufficient financial strength to have foreign exchange available for scheduled payments. This program encourages U.S. lenders and exporters to extend credit terms on sales of agricultural commodities and products to overseas customers. The GSM-102 Program supports the involvement of foreign private sector banks and private sector importers in commercial trade transactions with the United States. The program statute allows for repayment terms up to two years but actual repayment terms are currently limited to 18 months or less.

Analysis of Results

In FY 2017, the value of export sales registered under the program was $1.62 billion. The program met its targeted economic return ratio of $101 per dollar invested. The Economic Return Ratio is calculated using gross default estimates and does not take into consideration expected recoveries on claims paid.

Despite lower-than-average annual usage, the GSM-102 Program continues to be critical in supporting sales of U.S. commodities to many markets. Accomplishments for FY 2017 include:

- The GSM-102 program supported $554 million in U.S. yellow corn sales in FY 2017. U.S. yellow corn exports to Nicaragua, Peru, and the Dominican Republic through the GSM-102 program accounted for 35%, 33% and 17%, respectively, of all U.S. yellow corn exports to these countries (based on total U.S. export data through August 31, 2017). The GSM program helps U.S. exports to compete with other major yellow corn suppliers in these markets. For example, in 2016 the United States lost market share in the Dominican Republic to Brazil and Argentina. With the help of the GSM-102 program, U.S. exporters recaptured lost market share and became the major yellow corn supplier to this country in FY 2017.

- Soybeans are the second largest commodity supported by the GSM-102 program, with $430 million in sales for FY 2017. U.S. soybean sales under the program to Costa Rica, Mexico, and Egypt, accounted for 33%, 16%, and 8%, respectively, of all U.S. soybean exports to these countries (based on total U.S. export data through August 31, 2017). In Egypt, the United States lost market share in FY 2016 to Ukraine, Argentina and Brazil. With the help of the GSM-102 program, U.S. exporters regained lost market share to become the second largest supplier to Egypt in FY 2017.

- The GSM-102 program supported $253 million in U.S. wheat sales for FY 2017. U.S. wheat sales under the program to Mozambique and South Korea accounted for 99% and 25%, respectively, of all U.S. wheat exports to these countries (based on total U.S. export data through August 31, 2017). In 2016, U.S. exporters lost wheat market share to Russia and Canada, but were able to regain it from these competitors in 2017 with the help of the GSM-102 program.

- The GSM-102 program supported $234 million worth of U.S. soybean meal sales in FY 2017. U.S. soybean meal sales to Turkey, Guatemala, and Colombia, accounted for 56%, 15%, and 13%, respectively, of all U.S. soybean meal exports to these countries (based on total U.S. export data through August 31, 2017). In Turkey, the program has assisted U.S. exporters in maintaining market share versus main supplier Argentina.

- In FY 2017, the GSM-102 program also supported $56 million in sales of rice, accounting for 25% of total U.S. rice exports to Venezuela in 2017. Sales of distillers dried grains (DDGs) under the program, valued at $25 million to date, accounted for 31% of total U.S. exports of DDGs to El Salvador. The sale of $1 million in soybean hull pellets represents 17% of total U.S. exports of soybean hull pellets to Costa Rica in 2017 (all figures based on total U.S. export data through August 31, 2017).

- The GSM-102 program also supports sales of non-bulk commodities. For example, U.S. exporters made sales of wood pulp and wood chips to Turkey and walnuts, almonds, and fresh grapes to South Korea in FY 2017.

Table 8: Summary of Performance Measure for GSM

Performance Measure	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017		
					Target	Actual	Result
Estimated trade value resulting from USDA GSM export credit guarantee program (dollars in billions)	$3.11	$2.09	$1.87	$2.21	$1.80	$1.62	Met

Threshold range: +/- 0.25 billion

Rationale for Met Range: Management Determination

Data Assessment of Performance Measure

Data source: The data source for this measure is the GSM System. The GSM System records all export sales registered, guarantees issued and shipments and makes adjustments to these amounts due to reserves or shipments not completed.

Completeness of Data: Data reported represent results for the fiscal year based on data available as of October 2, 2017.

Reliability of Data: CCC considers this data to be reliable. The GSM System is updated every night. The GSM System is included in the annual A-123 review of the GSM-102 program and is also included in the annual audit by external auditors. The performance measure is simply the port value derived from reports that are generated from the GSM System.

Quality of Data: The GSM System is a system designed solely to support the GSM export credit guarantee programs. The GSM System is updated every night and all changes are tested before being incorporated into the system. Data is reviewed on a daily basis.

Table 9: Summary of Performance Measure for Economic Return Ratio

Performance Measure	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017		
					Target	Actual	Result
Economic Return Ratio	$(130/1)	$(124/1)	$(109/1)	$(106/1)	$(101/1)	$(101/1)	Met
Threshold range: +/- $5.00/1							
Rationale for Met Range: Management Determination							
Data Assessment of Performance Measure							
Data source: The data source for this measure is the GSM System. The GSM System records all export sales registered, guarantees issued and shipments and makes adjustments to these amounts due to reserves or shipments not completed.							
Completeness of Data: Data reported based on results for the fiscal year as of October 2, 2017.							
Reliability of Data: CCC considers this data to be reliable. The GSM System is updated every night. The GSM System is included in the annual A-123 review of the GSM-102 program and is also included in the annual audit by external auditors.							
Quality of Data: The GSM System is a system designed solely to support the GSM export credit guarantee programs. The GSM System is updated every night and all changes are tested before they are incorporated into the system. Data is reviewed on a daily basis.							

Challenges for the Future

FY 2018 presents both challenges and opportunities for the GSM-102 Program. Uncertainties in the global economic environment, especially relating to emerging markets (the primary focus of the GSM program), low interest rates, and strong bank liquidity may create demand shifts based on commercial financing availability as the size of this program typically runs countercyclical to global financial stability.

FY 2017 was the first year of operation for the revised Facility Guarantee Program (FGP). The FGP is designed to boost sales of U.S. agricultural products by providing credit guarantees to improve or establish agriculture-related facilities in emerging markets where demand may be limited due to inadequate storage, processing, handling, or distribution capabilities. The FGP is a subset of the GSM-102 program and draws on the $5.5 billion yearly authorization for the Export Credit Guarantee Programs. No guarantees were issued under this program in FY 2017 but USDA continues outreach efforts to increase industry’s awareness of the program.

Part III: Financial Section

Message from the Chief Financial Officer

I am pleased to present the Commodity Credit Corporation's (CCC) Fiscal Year (FY) 2017 Consolidated Balance Sheet, related notes, and other information. CCC remains committed to the principles as established by executive and legislative mandates that include information technology, financial management, procurement, and program performance management. During FY 2017, CCC continued to move aggressively to carry out its mission to provide high quality services to the Nation's agricultural community and to proactively respond to worldwide agricultural needs.

CCC's financial condition was significantly impacted by various programs due to events in the global marketplace, extreme weather conditions, natural disasters, evolving conservation practices, and continued implementation of the 2014 Farm Bill. To help keep American agriculture profitable and keep farmers on the farm, CCC's programs, which are predominantly administered by the Farm Service Agency (FSA), helped provide a financial safety net for farmers and ranchers, increased stewardship of natural resources, ensured commodities were procured and distributed effectively and efficiently, and increased US food and agricultural exports.

CCC also remains committed to accountability and transparency in everything we do.

The opinion on the FY 2017 Consolidated Balance Sheet is unmodified.

Under the requirements of the Federal Managers' Financial Integrity Act of 1982, CCC's management conducted its annual assessment and concluded that the system of internal controls, taken as a whole, complies with internal control standards prescribed by the Government Accountability Office and provides reasonable assurance that, except for the material weaknesses identified, the related objectives are being met. In FY 2017, our focus was on maintaining and improving strong financial management internal controls. For FY 2018, we will continue to improve our procedures and processes in order to ensure that our internal controls provide the requisite assurance to achieving CCC's objectives.

CCC's consolidated balance sheet, related notes, and other information, included herein, report the Corporation's FY 2017 financial position, results of operations, and status of budgetary resources. The independent auditors have issued an opinion only on CCC's financial position as reflected in the balance sheet and related footnotes as of September 30, 2017. The other statements presenting CCC's results of operations and status of budgetary resources are unaudited and can be found in the "Other Information" section of this report. Financial management performance measures also accompany the financial results. These performance measures demonstrate areas of efficiency, accomplishments, and highlight areas for improvement.

I want to thank the financial management professionals who support CCC for their continued dedication and hard work this past year. It is through their effective and efficient efforts that CCC delivered the most accurate, transparent and useful information possible as we continue to work together in our quest for excellence in financial management.

Sincerely,

Radha Sekar
Chief Financial Officer
Commodity Credit Corporation

Introduction to the Consolidated Balance Sheet

The audited Consolidated Balance Sheet and related Notes are found in this section. All other financial statements and related Notes are found in the Other Information section of this report and are not audited.

The Consolidated Balance Sheet has been prepared to report the financial position of the Commodity Credit Corporation. The Consolidated Balance Sheet has been prepared from the books and records of CCC in accordance with U.S. GAAP as promulgated by FASAB. The Consolidated Balance Sheet is produced, in addition to other financial reports prepared by CCC, in accordance with OMB and U.S. Department of the Treasury directives. CCC has, and reports, a parent-child relationship with USAID for two Treasury Account Symbols.

The Consolidated Balance Sheet presents those resources owned or managed by CCC that are available to provide future economic benefits (assets); amounts owed by CCC that will require payments from those resources or future resources (liabilities); and residual amounts retained by CCC, comprising the difference between future economic benefits and future payments (net position).

The Notes to the Consolidated Balance Sheet are an integral part of the Consolidated Balance Sheet. They provide explanatory information or additional detail to help readers understand, interpret, and use the data presented.

Commodity Credit Corporation
CONSOLIDATED BALANCE SHEET
As of September 30, 2017
(In Millions)

		2017
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$	2,855
Accounts Receivable, Net (Note 4)		34
Total Intragovernmental Assets	$	2,889
Cash and Other Monetary Assets (Note 3)		57
Accounts Receivable, Net (Note 4)		93
Commodity Loans, Net (Note 5)		394
Direct Loans and Loan Guarantees, Net (Note 6)		2,417
Commodity Inventory and Related Property, Net (Note 7)		35
Advances to Others (Note 9)		91
Total Assets	$	5,976
General Property and Equipment (Note 8)		
Liabilities (Note 10):		
Intragovernmental:		
Debt to the Treasury (Note 11)	$	9,950
Other Intragovernmental Liabilities (Note 13):		
Resources Payable to Treasury		856
Excess Subsidy Payable to Treasury		182
Other Intragovernmental Liabilities		8
Subtotal Other	$	1,046
Total Intragovernmental Liabilities	$	10,996
Accounts Payable		71
Grants Payable		226
Loan Guarantee Liability (Note 6)		13
Environmental and Disposal Liabilities (Note 14)		21
Accrued Liabilities (Note 15)		8,890
Deposit and Trust Liabilities (Note 12)		22
Other Liabilities (Note 13)		11
Total Liabilities	$	20,250
Commitments and Contingencies (Note 16)		
Net Position:		
Capital Stock	$	100
Unexpended Appropriations		1,756
Cumulative Results of Operations		(16,130)
Total Net Position	$	(14,274)
Total Liabilities and Net Position	$	5,976

Notes to the Consolidated Balance Sheet

Note 1 - Significant Accounting Policies- Consolidated Balance Sheet

Reporting Entity

CCC is a federal corporation operating within and through USDA. CCC was established to stabilize, support, and protect farm income and prices; assist in the maintenance of balanced and adequate supplies of agricultural commodities; and facilitate the orderly distribution of those commodities.

CCC's statutory authority for its operations is found in the Commodity Credit Corporation Charter Act, 15 U.S.C. 714, and et seq. The Corporation is managed by a Board of Directors subject to the general supervision and direction of the Secretary of Agriculture, who is an *ex-officio* director and chairperson of the Board. The members of the Board and the Corporation's officers are officials of USDA.

CCC has capital stock in the amount of $100 million subscribed by Treasury in accordance with the Commodity Credit Corporation Charter Act of 1948.

CCC has no operating personnel. As stated earlier in this report, its programs are administered through various agencies including FSA, AMS, NRCS, FAS, and USAID.

Basis of Presentation

The Corporation's consolidated balance sheet reports the financial position of CCC. This statement has been prepared from the accounting records of CCC as of September 30, 2017 in accordance with generally accepted accounting principles promulgated by FASAB. This statement has been prepared for the Corporation which is a component of the U.S. Government, a sovereign entity. All dollar amounts in this section are presented in millions unless otherwise noted.

Basis of Accounting

CCC prepares its Consolidated Balance Sheet using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. The Consolidated Balance Sheet includes all Treasury funds of CCC, which encompass its domestic and foreign activities, including its child account Treasury funds. In consolidation, intra-agency activities and balances have been eliminated.

Note 1 - Significant Accounting Policies- Consolidated Balance Sheet, Continued

Allocation Transfers and Shared Appropriations

CCC is a party to allocation transfers with another Federal agency as a transferring (parent) entity. Allocation transfers are legal delegations of one department's (parent entity) authority to obligate budget authority and outlay funds to another department (child entity). A separate fund account (allocation account) is created in Treasury as a subset of the parent fund account for tracking and reporting purposes.

All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity.

CCC, as the parent, allocates funds to USAID to fund P.L. 480 Title II and Bill Emerson Humanitarian Trust (BEHT) transportation and other administrative costs in connection with foreign donations. In accordance with U.S. GAAP, CCC reports USAID's financial activity in the child accounts for which it is the parent.

Fund Balance with Treasury

CCC disbursements are made by checks or electronic funds transfers that are deducted from CCC's account at Treasury.

Treasury requires that the Fund Balance with Treasury amounts reported via Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) be reconciled to Treasury's records. To comply with these requirements, cash timing differences due to deposits in-transit or outstanding checks are reported as "in-transit". The cash balance includes such timing differences as a result of varying processing times and cut-off dates between CCC, Treasury, and other USDA entities. Refer to Note 2 – Fund Balance with Treasury for additional information.

Cash and Other Monetary Assets

CCC does not maintain cash in commercial bank accounts or at any FSA location. Cash received but not yet reflected in Treasury balances is considered as undeposited collections. Refer to Note 3 – Cash and Other Monetary Assets.

Note 1 - Significant Accounting Policies- Consolidated Balance Sheet, Continued

Accounts Receivable

Accounts receivable arise from claims to cash or other assets against other entities, either based on legal provisions, such as program overpayments, or for goods or services provided.

Accounts receivable are adjusted by a valuation allowance based on historical collection, write-off information, and other analysis which reduces the receivables to their estimated net realizable value. Refer to Note 4 – Accounts Receivable, Net for additional information.

Tobacco Transition Payment Program (TTPP)

The American Jobs Creation Act of 2004, which included The Fair and Equitable Tobacco Reform Act (the Law), effectively ended the tobacco loan program for CCC, which provided recourse loans to tobacco producers or quota holders. The Law provided that CCC would collect funds from the tobacco manufacturers and importers and make payments over a 10-year period to tobacco producers or quota holders. CCC levied assessments to the manufacturers and importers quarterly. All collections from the tobacco industry are deposited into the Tobacco Trust Fund managed by CCC.

The Law allows CCC’s revolving fund to make payments to the quota holders and producers, and provided for reimbursement from the Tobacco Trust Fund. The assessments collected from the tobacco industry are subsequently transferred to CCC’s revolving fund, reimbursing that fund for the payments made to quota holders and producers based on approved contracts.

In FY 2005, CCC recognized a public receivable for the present value of the expected future collections from the manufacturers and importers over the 10-year period. In addition, CCC recognized an accrued liability for the present value of the remaining pay-out amount to the quota holders and producers. The present value recorded by CCC is adjusted annually to reflect the present value of the future collections and payments.

The TTPP concluded at the end of 2014 (Quarter 1, FY 2015). The final assessments were sent to the manufacturers and importers in the 4th quarter of FY 2014, with a final true-up assessment mailed to manufacturers and importers in the 4th quarter of FY 2015. The final payment to the quota holders and producers was made in the 2nd quarter of FY 2015.

Note 1 - Significant Accounting Policies- Consolidated Balance Sheet, Continued

Approximately $150 million remains uncollected for TTPP, and it is one component of accounts receivable. These outstanding receivables represent companies still making payments on promissory notes and settlement agreements, companies where a judgment was filed by the Department of Justice (DOJ), companies where a judgment is being sought by the DOJ, and bankruptcies. It also includes all assessments, notes, interest and penalties associated with the program. Receivables associated with companies no longer in business, have been written off. As of the end of FY 2017, an evaluation of the remaining open receivables has been made regarding CCC's ability to collect and an allowance has been recorded based on that evaluation. Now that the program is completed, an ongoing evaluation of the ability to collect will occur periodically or as circumstances dictate. Refer to Note 4 – Accounts Receivable, Net for additional information.

Commodity Loans

CCC makes both recourse and nonrecourse loans to producers of designated agricultural commodities. Commodity loans are statutorily exempt from the accounting and reporting requirements of FCRA.

Interest is accrued on the unpaid principal balance of commodity loans and is included in the reported net commodity loans receivable balances.

Commodity loans are reported net of an allowance for doubtful accounts, which reduces the loans to their estimated net realizable value. The allowance is based on the estimated loss on ultimate disposition when it is more likely than not that the loans will not be fully collected. When CCC disposes of forfeited commodities, depending on the type of disposition, any loss on the disposition is realized as either a cost of sales or a donation. Refer to Note 5 – Commodity Loans, Net for additional information.

Note 1 - Significant Accounting Policies- Consolidated Balance Sheet, Continued

Direct Loans and Loan Guarantees – Credit Reform

FCRA applies to direct loans and loan guarantees made on or after October 1, 1991 (Post-1991).

CCC has several credit loan programs subject to credit reform requirements. Credit program receivables consist of:

- Direct loans extended under P.L. 480 Title I
- Receivables in the Debt Reduction Fund (this fund is specifically for restructure of loans);
- Receivables for the Export Credit Guarantee program in the form of rescheduled agreements;
- Loans, including microloans, made to producers to build or upgrade farm, sugar storage and handling facilities, and for other purposes;
- Loans made to apple producers who incurred losses due to low market prices; and
- Loans made to the Texas Boll Weevil Eradication Foundation.

Definitions:

- Direct loans are a disbursement of funds by the Government to non-federal borrowers under contracts that require the repayment of such funds within a certain time with or without interest. It includes the purchase of, or participation in, a loan made by another lender and financing arrangements that defer payment for more than 90 days.

- Loan guarantees represent assurance that the payment of all or part of the principal or interest on any debt obligation of a non-federal borrower to a non-federal lender will be received by the non-federal lender. A defaulted loan guarantee occurs if the borrower fails to make a payment pursuant to the terms of the obligation.

- FCRA established credit program and financing accounts for loan guarantees and direct loans obligated after September 30, 1991 (Post-1991). It also established liquidating accounts for activity relating to any loan guarantees committed or direct loans obligated before October 1, 1991 (Pre-1992).

Note 1 - Significant Accounting Policies- Consolidated Balance Sheet, Continued

- The credit program account is the budget account into which an appropriation to cover the cost of a direct loan or loan guarantee program is made and from which such cost is disbursed to the financing account.
- The financing account is the non-budget account or accounts associated with each credit program account that holds balances, receives payment from the credit program account, and also includes all other cash flows to and from CCC resulting from direct loan obligations or loan guarantee commitments made on or after October 1, 1991.
- The liquidating account is the budget account that includes all cash flows to and from CCC resulting from direct loan obligations or loan guarantee commitments made prior to October 1, 1991. The liquidating accounts are shown in the federal budget on a cash basis.

Accounting:

Based on FCRA and SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, all credit reform loans initiated after September 30, 1991 are presented on a present value basis. CCC recognizes the credit reform loan receivables (including related interest) as assets at the present value of their estimated net cash inflows. The loan guarantees are accounted for on a net present value basis at the time the guaranteed loan is disbursed. The difference between the outstanding principal of these receivables and the present value of their net cash inflows is recognized as an allowance.

For loans initiated before October 1, 1991 (Pre-1992), restatement of loan value on a present value basis is permitted but not required. CCC elected to restate the Pre-1992 loan receivables from nominal value to net present value starting in 2001, the accounting treatment, including revenue recognition and allowance calculation, has been applied consistently to Pre-1992 and Post-1991 Direct Loan and Loan Guarantee programs. For Pre-1992 and Post-1991 loan interest receivable, the portion related to non-performing loans is deferred and presented net of the loan receivable line item in the Balance Sheet.

The net present value of Direct Loans and Loan Guarantees, Net, as shown in the Balance Sheet, is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

Note 1 - Significant Accounting Policies- Consolidated Balance Sheet, Continued

Rescheduling agreements allow CCC to add uncollected interest to the principal balance of foreign credit and other foreign receivables (capitalized interest). In such circumstances, CCC records an allowance to reduce the receivable, including the capitalized interest, to the present value of future cash flows. Interest income is recognized only when, in management's judgment, debtors have demonstrated the ability to repay the debt in the normal course of business. Refer to Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers for additional information.

Commodity Inventory

Commodity inventory, referred to as goods held under price support and stabilization programs in the SFFAS No. 3, *Accounting for Inventory and Related Property*, issued by the FASAB, represent commodities acquired by the Corporation for donation or price support purposes. They are eventually sold or otherwise disposed of to help satisfy economic goals. Acquisition is generally made through commodity loan forfeitures, use of CCE, or by purchase of commodities on the open market.

Commodity inventory is initially recorded at the cost or forfeiture value, and the commodity is revalued in the balance sheet at year-end at the lower of cost or the net realizable value in accordance with SFFAS No. 3. Refer to Note 7 – Commodity Inventory and Related Property, Net.

General Property and Equipment

General property and equipment purchases are recorded at the acquisition cost plus expenditures related to placing the asset into service such as freight, installation, and testing. Purchases of property valued at $25,000 or more and a useful life of two years or greater are capitalized. Property and equipment is depreciated on a straight-line basis. Computer equipment has a service life of five years. There is no salvage value associated with general property and equipment.

In accordance with SFFAS No. 10, *Accounting for Internal Use Software*, capitalized software development costs include contractor developed software, purchased software, and internally developed software. Capitalized internal use software costs are amortized over a period of five years beginning with the first year the software is fully operational.

Note 1 - Significant Accounting Policies- Consolidated Balance Sheet, Continued

Once the software is put into operation, amortization begins. Internal use software valued at $100,000 or more and a useful life of two years or greater is capitalized. Internal use software development costs are accumulated and capitalized upon completion.

As of September 30, 2017, CCC's property and equipment was fully depreciated and software costs were fully amortized. Refer to Note 8 – General Property and Equipment, Net for additional information.

Liabilities

Depending on the type of transaction, CCC recognizes a liability in one of two ways. If an exchange transaction occurs (i.e., receipt of goods or services in return for a promise to provide money or other resources in the future), a liability is recognized in the period in which the exchange occurred. If a non-exchange transaction occurs (i.e., government programs where there is a one-way flow of resources or promises), a liability is recognized for any unpaid amounts due as of the reporting date. Liabilities not covered by budgetary resources, disclosed in Note 10 – Liabilities Not Covered by Budgetary Resources, result from the accrual of unpaid amounts due to various CCC programs. Budgetary resources for the programs will not be made available until a future fiscal year, when Congressional action or OMB apportionment is completed.

Tax Status

CCC, as a federal entity, is not subject to federal, state, or local income taxes, and accordingly, no provision for income tax is necessary.

Use of Estimates

The nature of an accrual basis balance sheet requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the balance sheet. For example, under U.S. GAAP, Accrued Liabilities must be estimated and recorded if the event creating the liability has occurred, even if an invoice or payment request has not been received and the precise amount is unknown, as long as the amount can reasonably be estimated. Actual results could differ from those estimates.

Note 2 – Fund Balance with Treasury

Fund Balance with Treasury, by fund type, as of September 30, 2017, was as follows:

Table 10: Fund Balance with Treasury by Fund Type

	(In Millions)
	2017
Fund Balance with Treasury, by type of fund:	
Trust Funds	$ 21
Revolving Funds	953
General Funds	1,880
Other Fund Types	1
Total Fund Balance with Treasury	$ 2,855

CCC deposits most funds into a suspense fund with Treasury. The suspense account is monitored daily and transferred to the appropriate Treasury Account Symbol immediately upon verification. The balance in the suspense account is reflected in the table above in Other Fund Types.

Note 3 – Cash and Other Monetary Assets

As of September 30, 2017, CCC had $57 million in undeposited collections.

Note 4 – Accounts Receivable, Net

Accounts Receivable as of September 30, 2017, were as follows:

Table 11: Accounts Receivable

	(In Millions)
	2017
Intragovernmental:	
Due from Other Federal Agencies	$ 34
Total Intragovernmental Accounts Receivable, Net	$ 34
Public:	
Notes Receivable	$ 5
Interest Receivable	3
TTPP Receivable	150
Other	50
Subtotal	$ 208
Allowance for Doubtful Accounts	(115)
Total Public Accounts Receivable, Net	$ 93

As of September 30, 2017, Public Accounts Receivable for the TTPP was $150 million, composed of $121 million in Short-Term Receivables, $8 million in Notes Receivables, and $21 million in Interest and Penalty Receivable. TTPP had an allowance of $99 million which is included in the $115 million allowance above. Refer to Note 1 - Significant Accounting Policies - Consolidated Balance Sheet, under TTPP, for general information on the program.

Other Public Receivables consist of amounts due as a result of program overpayments or dishonored checks.

Note 5 – Commodity Loans, Net

Commodity Loans Receivable, by commodity, as of September 30, 2017, were as follows:

Table 12: Commodity Loans Receivable by Commodity

	(In Millions) 2017
Cotton	$ 37
Pulses	2
Feed Grains:	
Barley	6
Corn	176
Grain Sorghum	1
Honey	2
Oilseeds	5
Peanuts	29
Rice	14
Soybeans	26
Wheat	92
Subtotal Commodity Loans	$ 390
Commodity Loans in Collection	2
Accrued Interest Receivable	3
Total Commodity Loans, Gross	$ 395
Less: Allowance for Losses	(1)
Total Commodity Loans, Net	$ 394

Commodity Loans in Collection consist primarily of defaulted loans which have been turned over to the Receivables Management Office for collection action, including offset against future program payments.

Commodity loans (MALs) are of two types, recourse or non-recourse. Recourse loans must be repaid at principal plus interest by the maturity date. The recourse loan commodity cannot be delivered or forfeited in satisfaction of the outstanding loan. For nonrecourse loans, producers have the option to: (a) repay the principal plus interest; (b) repay the loan (for certain designated commodities) at the market rate if the market rate is less than the loan rate; (c) repay the loan (for certain designated commodities) with a CCE if the market rate is less than the loan rate; or (d) forfeit the commodity in satisfaction of the loan at maturity.

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers,

Direct credit and loan obligations and credit guarantee commitments made after FY 1991 and the resulting direct credits and loans or credit guarantees are governed by FCRA, as amended. The CCC balance sheet reflects the estimate of the long-term cost of the direct and guaranteed loans in accordance with FCRA. CCC has a portfolio which includes both direct loans and loan guarantees.

Loans and interest receivable are valued at gross amounts less an allowance for the present value of amounts not expected to be recovered and thus having to be subsidized—called an "allowance for subsidy." The difference between the gross amount and the allowance for subsidy is the present value of the cash flows to, and from, the Corporation that are expected from receivables over their projected lives. Similarly, liabilities for loan guarantees are valued at the present value of the cash outflows from CCC, less the present value of related inflows. The estimated present value of net long-term cash outflows of the Corporation for subsidized costs is net of recoveries, interest supplements, and offsetting fees.

When post-1991 direct loans are written off for financial statement purposes, the unpaid principal and interest of the loans are removed from the gross amount of loans receivable. The associated amount for subsidy allowance is also removed.

The Corporation values all pre-1992 (pre-credit reform) loans, loan guarantees, and direct loans at their net present values. Based on management analysis and judgment, certain pre-credit reform loans with significant periods of non-performance are written off only for financial statement purposes, since CCC must follow the requirements of 22 U.S.C.2430c for any actual write-offs.

FCRA requires agencies to estimate for the President's Budget the cost of direct credits and loans and credit guarantees at the present value of future cash flows. Additionally, the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets and other cash flows) associated with direct credits and loans and credit guarantees are recognized as a cost in the year the direct credit and loan or credit guarantee is disbursed. The net present value of loans or defaulted guaranteed loans receivable at any point in time is the amount of the gross loan or defaulted guaranteed loans receivable less the present value of the subsidy at that time.

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

Accounting and Presentation

The credit reform loan receivables (including interest) are recognized as assets at the present value of their estimated net cash inflows. The difference between the outstanding principal of these receivables and the present value of their net cash inflows is recognized as an allowance. CCC uses the Credit Subsidy Calculator 2 (CSC2) for computing the subsidy re-estimates for its credit reform programs. The CSC2 is an OMB tool for performing credit calculations, incorporating both financing account interest and cash flow amounts. CCC also uses the Treasury Credit Reform Certificate Program guidelines, SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, SFFAS No. 18, *Amendments to Accounting for Direct Loans and Loan Guarantees*, and SFFAS No. 19, *Technical Amendments to Accounting for Direct Loans and Loan Guarantees* for the accounting and reporting of its loan subsidy cost reestimation and amortization.

The cost of loan guarantees is accounted for on a net present value basis at the time the guaranteed loan is disbursed. The cost includes the estimated cash flows of payments by CCC to cover defaults and delinquencies, interest subsidies, payments to CCC including origination and other fees, penalties, and recoveries, including the effects of any expected actions by CCC, and the exercise of any options included in the loan guarantee contract.

In estimating net present values, the discount rate is the average interest rate on marketable Treasury securities of similar maturity cash flows of the direct loan or loan guarantee for which the estimate is being made. When funds are obligated for a direct loan or loan guarantee, the estimated cost is based on the current economic assumptions and the terms of the loan contract for the program.

Interest is accrued monthly on both performing and non-performing direct loans and loan guarantee receivables as it is earned using simple interest calculations based upon a 365-day year. A non-performing direct loan or loan guarantee receivable is defined as a repayment scheduled under a credit agreement with an installment payment in arrears more than 90 days. For those non-performing receivables, accrued interest is not recognized as income; rather, it is deferred until the interest is received or the receivable is returned to performing status. When direct and guaranteed loan financing funds collect more subsidy than necessary to fund future net cash outflows, the applicable financing account transfers the excess subsidy, with interest, to a Treasury General Fund Receipt

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

(GFR) Account. Refer to Note 13 – Other Liabilities for additional information on Excess Subsidy Payable to Treasury.

Credit Program Discussion and Descriptions

Credit Guarantee Programs – Export

CCC Export Credit Guarantee Program, Guaranteed Loans, provides guarantees to buyers in countries where credit is necessary to maintain or increase U.S. sales of agricultural products. The financing to buyers may not be otherwise available without the U.S. credit guarantees. CCC underwrites credit extended by the private banking sector under GSM-102 and FGP. CCC records a liability to the extent that CCC will be unable to recover claim payments under the Credit Reform Export Credit Guarantee programs.

Under GSM-102, CCC underwrites credit extended by the private banking sector in the U.S. (or, less commonly, by the exporter) for terms of up to twenty-four months. CCC does not provide financing, but guarantees payments due from foreign banks and obligors. Typically, 98 percent of principal and a portion of interest at an adjustable rate are covered. All guarantees under this program are in U.S. dollar denominations. In the event that CCC pays a claim under the guarantee programs, CCC assumes the debt and treats it as a direct credit loan receivable for accounting and collection purposes.

The FGP provides payment guarantees to finance commercial exports of U.S. manufactured goods and services that will be used to improve agriculture-related facilities. Payment terms may range from 1 to 10 years, with semi-annual installments on principal and interest. An initial payment representing at least 15 percent of the value of the sales transaction must be provided by the importer to the exporter. CCC may offer coverage of up to 100 percent of the net contract value, less the initial payment.

Collections resulting from direct loans obligated or loan guarantees committed prior to October 1, 1991, are credited to the liquidating accounts. The amounts credited are available to the same extent that they were available to liquidate obligations arising from such direct loans obligated or loan guarantees committed prior to October 1, 1991, including repayment of any obligations held by the Department of the Treasury. The unobligated cash balances of such accounts that are in excess of current needs must be

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

transferred at least annually to the general fund of the Treasury. Refer to Note 13 – Other Liabilities for additional information on Resources Payable to Treasury.

Direct Credit Programs – Export

Under the CCC Export Credit Guarantees program, several cohorts have had defaults and claims that resulted in rescheduled loans which are now direct loans owed to CCC. The programmatic purpose does not differ from the original guaranteed loans.

Direct Credit Programs – Food Aid

Under the P.L. 480 Title I Program, CCC finances the sales of U.S. agricultural commodities to countries in need of food assistance on favorable credit terms (at low rates of interest for up to 30 years with grace periods of up to 7 years). P.L. 480 Title I provides for government-to-government (and some government-to-private entity) sales of U.S. agricultural commodities to developing countries on credit terms or for local currencies. Priority is given to countries with the greatest need for food that are undertaking economic development to improve food security and agricultural development, alleviate poverty, and promote broad based, equitable and sustainable development. All credits under this program are in U.S. dollar denominations. The aid provided under this program is in the form of agricultural commodities instead of actual loans; hence the term direct credit rather than direct loans. Although legislative authority for the P.L. 480 Title I Program still exists, there have been no new loans extended under the program since FY 2006.

Direct Credit Programs – Debt Reduction

The Debt Reduction Fund is used to account for modified foreign debt. Debt is considered to have been modified if the original debt has been reduced or the interest rate of the agreement is changed. The Debt Reduction Fund is the financing fund for modification of defaulted foreign loans, both direct and guaranteed. Modifications moved to this fund must be approved by OMB and State Department.

Direct Credit Programs – Domestic

The FSFL Program was implemented to provide low cost financing for producers to build or upgrade on-farm commodity storage and handling facilities. The loans have a term of 3, 5, 7, 10, or 12 years with a requirement of annual repayment installments. Interest on these loans is accrued monthly from the date of disbursement. The borrower's rate is

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

established to be equivalent to the rate of interest charged on the Treasury securities of comparable maturity.

FSA developed the Farm Storage Microloan program designed to help producers, including new, small and mid-sized producers, grow their businesses and markets. Loans are now available for portable handling and storage equipment in addition to more traditional on-farm storage methods. The program will offer more flexible access to credit and will serve as an attractive loan alternative for smaller farming operations like specialty crop producers and operators of community supported agriculture. These smaller farms, including non-traditional farm operations, often face limited financing options. The loans have a term of 3, 5 or 7 years with a requirement of annual repayment installments.

Sugar Storage Facility Loans (SSFL) were authorized by the 2008 Farm Bill specifically for processors of domestically produced sugarcane and sugar beets for the construction or upgrading of storage and handling facilities for raw sugars and refined sugars. The loan term is 15 years. Only one loan has been approved and disbursed for $3.9 million in the 2013 cohort.

The Boll Weevil Program was made available to the Texas Boll Weevil Eradication Foundation in FY 2001, as an interest-free $10 million loan to be repaid over 10 years. The loans had not been repaid at the end of the 10 year timeframe, and new promissory notes were signed in May 2011, extending the repayment period to October 2020.

In FY 2001, the Apple Loan Program provided loans to apple producers who suffered hardships due to low prices following the 1998-1999 growing season when apple prices fell to their lowest levels in nearly 10 years. Eligible applicants obtained loans up to $300 per acre of apple trees in production in 1999 or 2000, up to a maximum indebtedness of $500,000. The original loan term was established as three years, but CCC is still receiving repayments.

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

Obligated Loans

P.L. 480 Title I direct credits outstanding that were obligated prior to October 1, 1991 (Pre-1992), and P.L. 480 direct credits, and direct loans for FSFL, Boll Weevil, and SSFL loans that were obligated on or after October 1, 1991 (Post-1991), and related interest receivable outstanding as of September 30, 2017, are shown in Table 13. Defaulted credit guarantees and related interest receivable are also presented in Table 13.

Table 13: Direct Loans and Defaulted Guaranteed Loans, Net

(In Millions)

	Loans Receivable, Gross	Interest Receivable	Present Value Allowance	Value Of Assets Related to Loans
Direct Loans:				
Obligated Pre-1992				
P.L. 480 Title 1	$ 1,049	$ 13	$ (214)	$ 848
Pre-1992 Total	$ 1,049	$ 13	$ (214)	$ 848
Obligated Post-1991				
P.L. 480 Title 1	$ 573	$ 9	$ (102)	$ 480
Debt Reduction Fund	112	1	(20)	93
Farm Storage Facility	725	10	(14)	721
Farm Storage Microloans	20	-	-	20
Boll Weevil Program	5	-	(1)	4
Sugar Storage Facility	3	-	-	3
Post-1991 Total	$ 1,438	$ 20	$ (137)	$ 1,321
Total Direct Loan Program Receivables	$ 2,487	$ 33	$ (351)	$ 2,169
Defaulted Guaranteed Loans:				
Pre-1992				
Export Credit Guarantee Programs	$ 2	$ -	$ -	$ 2
Pre-1992 Total	$ 2	$ -	$ -	$ 2
Post-1991				
Export Credit Guarantee Programs	$ 471	$ 21	$ (246)	$ 246
Post-1991 Total	$ 471	$ 21	$ (246)	$ 246
Total Defaulted Guaranteed Loans	$ 473	$ 21	$ (246)	$ 248
Total Direct Loans and Defaulted Guaranteed Loans, Net	$ 2,960	$ 54	$ (597)	$ 2,417

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

Disbursements

Table 14 shows new direct loans disbursed by CCC for the fiscal year ended September 30, 2017:

Table 14: Total Amount of Direct Loans Disbursed (Post-1991)

	(In Millions) 2017
Direct Loan Programs	
Farm Storage Facility	$ 156
Farm Storage Microloans	19
Total Direct Loans Disbursed	$ 175

Table 15: Guaranteed Loans Disbursed shows new guaranteed loans disbursed by the lender at face value. Guaranteed Loans which have not defaulted are not included in the amounts for Direct Loans and Loans Guarantees, Net, on the Consolidated Balance Sheet.

For the fiscal year ended September 30, 2017, credit guaranteed disbursements were as follows:

Table 15: Guaranteed Loans Disbursed

	(In Millions) 2017	
Loan Guarantee Programs	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Export Credit Guarantee Programs	$ 1,744	$ 1,709
Total Guaranteed Loans Disbursed	$ 1,744	$ 1,709

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

Guaranteed Loans Outstanding

Table 16 contains the outstanding principal guaranteed as of September 30, 2017. This represents the outstanding principal, at face value and guaranteed amounts owed by foreign financial institutions to exporters or assignee U.S. financial institutions participating in the program.

Table 16: Guaranteed Loans Outstanding

	(In Millions)	
Loan Guarantee Programs	Outstanding Principal, Face Value	Outstanding Principal, Guaranteed
Export Credit Guarantee Program	$ 1,671	$ 1,638
Total Guaranteed Loans Outstanding	$ 1,671	$ 1,638

Liability for Loan Guarantees

FY 2017 subsidy expense and reestimates contributed to the change of the loan guarantee liability. The loan guarantee liability represents CCC's liability for guarantees in the GSM program.

As of September 30, 2017, Liability for Loan Guarantees (Present Value Method) was as follows:

Table 17: Liability for Loan Guarantees (Present Value Method for Post-1991 Guarantees)

	(In Millions)
	2017
Loan Guarantee Programs	Liabilities for Loan Guarantees, Present Value
Export Credit Guarantee Programs	$ 13
Total Liability for Loan Guarantees	$ 13

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

Subsidy Expense

Total direct loan subsidy expense is a combination of subsidy expense for new direct loans disbursed in the current fiscal year, modifications to existing loans, and technical and interest rate reestimates to existing loans. Subsidy reestimates are calculated on cumulative disbursements for all budget fiscal years and the respective cohorts (direct loan origination year) that comprise them. There were no additional direct food aid credit agreements made after FY 2006. Subsidy expenses related to direct loans, net of fees and other collections, and subsidy reestimates for the fiscal year ended September 30, 2017, are shown below.

Table 18: Subsidy Expense for Direct Loans by Program and Component

(In Millions)

Direct Loan Programs	Interest Differential	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
P.L. 480 Title 1	$ -	$ -	$ 25	$ 25	$ 25
Defaulted Export Credit Guarantee	-	-	2	2	2
Debt Reduction	-	-	(130)	(130)	(130)
Farm Storage Facility	(2)	(5)	12	7	5
Farm Storage Microloans	-	-	1	1	1
Sugar Storage Facility	-	-	1	1	1
Total Direct Loan Subsidy Expense	$ (2)	$ (5)	$ (89)	$ (94)	$ (96)

Subsidy expenses related to credit guarantees, net of fees and other collections, and subsidy reestimates for the fiscal year ended September 30, 2017, are shown in Table 19: Subsidy Expense for Loan Guarantees by Program and Component below. Subsidy reestimates are calculated on cumulative disbursements for each cohort.

Table 19: Subsidy Expense for Loan Guarantees by Program and Component

(In Millions)

Loan Guarantee Programs	Fees and Other Collections	Other	Subtotal	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Export Credit Guarantee Programs	$ 9	$ (5)	$ 4	$ 5	$ 5	$ 9
Total Loan Guarantees Subsidy Expense	$ 9	$ (5)	$ 4	$ 5	$ 5	$ 9

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

Subsidy Rates

Subsidy rates are used to compute each year's subsidy expenses as disclosed below. The subsidy rates disclosed in Table 20: Subsidy Rates for Direct Loans by Program and Component and Table 21: Subsidy Rates for Loan Guarantees by Program and Component pertain only to FY 2017. These rates cannot be applied to the direct credits and loans and guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in FY 2017 could result from disbursements of loans from both the current year and prior-year cohorts. The subsidy expense reported in FY 2017 also includes reestimates. For the fiscal year ended September 30, 2017, there were no new loans for P.L. 480, and thus, no subsidy rate was provided. The Apple and Boll Weevil Loan Programs were one year programs, both in cohort 2001. Both of these loan programs continue to receive repayments.

Subsidy rates (percentage) for direct loans were as follows:

Table 20: Subsidy Rates for Direct Loans by Program and Component

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Farm Storage Facility	(1.01%)	0.02%	(0.27%)	(0.05%)	(1.30%)
Farm Storage Microloans	(1.01%)	0.02%	(0.27%)	(0.05%)	(1.30%)
Sugar Storage Facility	(2.22%)	0.03%	-	(0.01%)	(2.20%)

Subsidy rates (percentage) for credit guarantee programs were as follows:

Table 21: Subsidy Rates for Loan Guarantees by Program and Component

Guaranteed Loan Programs	Defaults	Fees and Other Collections	Total
GSM-102	0.39%	(0.63%)	(0.24%)
Export Guarantee Program - Facilities	0.65%	(4.61%)	(3.96%)

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

Subsidy Allowance in Table 22: Subsidy Cost Allowance Balances Direct Loans includes subsidy for both direct loans and loans receivable derived from those defaulted guaranteed loans as of September 30, 2017.

Table 22: Subsidy Cost Allowance Balances Direct Loans

	(In Millions) 2017
Direct Loan Programs	
P.L. 480 Title I	$ 102
Defaulted Export Credit Guarantee	246
Debt Reduction Fund	20
Farm Storage Facility	14
Boll Weevil	1
Subsidy Cost Allowance	383

Administrative Expenses

Consistent with FCRA, subsidy cash flows exclude direct federal administrative expenses. Administrative expenses on guaranteed loan programs are as noted in Table 23 below.

Table 23: Administrative Expenses

	(In Millions) 2017
Guaranteed Loan Programs	$ 9
Total Administrative Expenses	$ 9

Loan Modifications and Rescheduling

A modification is any government action different from the baseline assumptions that affects the subsidy cost such as a change in the terms of the loan contract. The cost of a modification is the difference between the present value of the cash flows before and after the modification.

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

The Debt Reduction Fund is used to account for CCC's modified debt. Debt is considered to be modified if the original debt has been reduced or the interest rate of the agreement changed. In contrast, when debt is "rescheduled," only the date of payment is changed. Rescheduled debt is carried in the original fund until paid. All outstanding CCC modified debt is carried in the Debt Reduction Fund and is governed by FCRA.

Events and Changes Having a Significant and Measurable Effect upon Subsidy Rates, Subsidy Expense, and Reestimates

CCC received guidance from OMB to start performing reestimates on the Debt Reduction account, annually starting in FY 2017. Due to the timing of the approval from OMB, we determined that the best option would be to utilize the P.L. 480 model with some modifications in order to produce an accurate cashflow output.

CCC made a change to adjust the cashflows for the current fiscal year to include a Financing Account Interest Adjustment in the CSC2 calculator for start of year for each cohort. While this has no overall impact on the reestimate, it does serve to more properly align the components of the reestimate.

Other than as stated above, CCC is unaware of any measurable events or pending legislation at this time that may affect subsidy rates and reestimates in the future.

Reestimate Trend Analysis

Agencies are required to reestimate the subsidy cost throughout the life of each cohort of direct loans or loan guarantees to account for differences between the original assumptions of cash flow and actual cash flow or revised assumptions about future cash flow. These reestimates represent additional costs or savings to the government and are recorded in the budget. Upward reestimates which indicate an increase in the subsidy cost are financed by permanent indefinite authority.

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

The GSM and P.L. 480 models were modified during FY 2017 to allow for a “financial statement” write-down of non-performing loans. CCC also implemented a loan portfolio review for P.L. 480 and GSM programs by categorizing every loan by certain characteristics in order to assess the legitimacy of the population inputs into the model and risk over the loan balances. This review supports the financial statement write-offs included in the FY 2017 reestimate.

P.L. 480 Title I Direct Credit

The P.L. 480 program had a total reestimate of $24.6 million; $40.7 million upward and $16.1 million downward. Interest on the reestimate had a large impact on the reestimate, comprising $29 million of the upward reestimate and $12 million of the downward reestimate. The previous reestimate already predicted significant defaults along with limited recoveries for poorly performing loans in some cohorts. In combination with the value calculated by the CSC2 on a net present value basis, many cohorts did not have significant remaining value in the loans that were written off this year (for example, the previous reestimated subsidy rate for the 1992 cohort was 96%, new reestimated rate is 97.4%). Several of these cohorts did not have significant upward reestimates because of actual and projected poor borrower performance included in past reestimates. Even so, using the write-off criteria developed in FY 2017 of predicting 100% defaults and zero recoveries, these changes did serve to increase the upward reestimates. Only one cohort had a significant downward reestimate, the 1997 cohort, generally attributable to an increase in projected recoveries, most of which was not associated with an increase in defaults. Refer to Table 18: Subsidy Expense for Direct Loans by Program and Component for a summary on the direct loan reestimates.

Farm Storage Facility Loans

The FSFL program had a total reestimate of $7.9 million, $10.5 million upward and $2.6 million downward. There were upward reestimates of $1.4 million to $2.2 million in each of the most recent cohorts (2012 to 2017), and a downward reestimate of $2.3 million in the 2010 cohort. For all of these cohorts, the upward adjustments were at least partially due to unanticipated increases in the “other losses, balancing” adjustments. For cohorts

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

2012, 2014 and 2015, a smaller portion of the upward reestimate was due to higher actual or projected prepayments with an associated loss in interest repayments.

As a percentage of disbursement, the reestimates for all Farm Storage cohorts are insignificant (less than 2%). Refer to Table 18: Subsidy Expense for Direct Loans by Program and Component for a summary on the direct loan reestimates.

Export Credit Guarantees

The GSM-102 program had a total reestimate of $7.8 million, consisting of $9.7 million upward and $1.9 million downward. Two cohorts, 2010 and 2016, account for 85 percent of the total upward reestimate. The upward reestimate for the 2010 cohort is primarily caused by decreases in FY 2017 actual recoveries (-$1.4 million) and associated decreases in projected recoveries (-$1.3 million). The cohort 2016 upward reestimate is directly attributable to claim payments made to Kenya in FY 2017. Predicted defaults in FY 2016 for FY 2017 cohort totaled $4 million, while the actual defaults were $11.6 million.

The total reestimate for Supplier Credit is a net downward of $1.2 million, consisting of $100 thousand upward and $1.3 million downward, all of which is in the 2004 cohort. The downward reestimate was due to increased recoveries during FY 2017 of $1.25 million. Refer to Table 18: Subsidy Expense for Direct Loans by Program and Component and Table 19: Subsidy Expense for Loan Guarantees by Program and Component for a summary on the loan guarantee reestimates for defaulted and active guarantee loans, respectively.

Note 7 – Commodity Inventory and Related Property, Net

Commodity inventory and related property as of September 30, 2017 (Values in Thousands) was as follows:

Table 24: Commodity Inventory and Related Property

		Ending Inventory		
		Unit of Measure	Quantity	Value
Corn Soya Blend		Pounds	4,444	$ 1,736
	Blended Foods Total		**XXX**	**$ 1,736**
Dry Whole Peas		Cwt.	241	$ 6,748
Lentils Dry		Cwt.	11	356
	Dry Whole Peas Total		**XXX**	**$ 7,104**
Corn Meal		Pounds	2,998	$ 871
Grain Sorghum		Bushels	221	2,015
	Feed Grains Total		**XXX**	**$ 2,886**
Peanuts		Pounds	55,593	$ 9,678
	Peanut Total		**XXX**	**$ 9,678**
Milled Head Rice		Cwt.	11	$ 248
	Rice Total		**XXX**	**$ 248**
Vegetable Oil		Pounds	20,683	$ 13,152
	Vegetable Oil Products Total		**XXX**	**$ 13,152**
Wheat		Bushels	17	$ 50
	Wheat Total		**XXX**	**$ 50**
Total Commodities			**XXX**	**$ 34,854**
Commodity Inventory and Related Property, Net				**$ 34,854**

Note: Due to distinct units of measure, Quantity totals are not tabulated, and are denoted as xxx.

Inventory purchases are initially recorded at acquisition cost, including transportation, plus processing and packaging costs incurred after acquisition. Acquisition cost for loan forfeitures is the amount of the loan settlement, excluding interest. The commodity is revalued in the balance sheet at year-end at the lower of cost or the net realizable value in accordance with SFFAS No. 3.

Note 7 – Commodity Inventory and Related Property, Net, Continued

Commodity inventory is not held in reserve for future sale. All commodity inventory on hand at year-end is anticipated to be donated or transferred during the next fiscal year. CCC has no excess, obsolete or unserviceable inventory.

Note 8 – General Property and Equipment, Net

General Property and Equipment as of September 30, 2017, were as follows:

Table 25: General Property and Equipment

	(In Millions)		
	Acquisition Value	Accumulated Depreciation	Net Book Value
Equipment	$ 24	$ (24)	$ -
Capitalized Software Costs	128	(128)	-
Total General Property and Equipment	$ 152	$ (152)	$ -

As of September 30, 2017, CCC's property and equipment was fully depreciated and software costs were fully amortized.

Note 9 – Advances to Others

Advances to Others as of September 30, 2017, were as follows:

Table 26: Advances to Others

	(In Millions)
	2017
Public:	
The Peanut Designated Marketing Association Advance	$ 68
Biofuels Infrastructure Grantees	14
Various Grantees, via USAID	9
Total Advances to Others	$ 91

The programs contributing to the majority of the Advances to Others (Public) include:

The Peanut Designated Marketing Association (DMA) Advance

CCC advanced funds to the DMA for 2015 marketing season for the purpose of providing peanut MALs and LDPs. During the marketing season, as the need for drawdown funds diminish, excess funds will be reimbursed to CCC. At the end of the marketing season, the DMA will reimburse CCC for any remaining fund advances.

Note 9 – Advances to Others, continued

Biofuels Infrastructure Grantees

To create new markets for U.S. farmers and ranchers, help Americans save money on their energy bills, support America's clean energy economy, cut carbon pollution, and reduce dependence on foreign oil and costly fossil fuels, USDA continues to aggressively pursue investments in American-grown renewable energy. As part of that commitment, USDA partnered with 21 states by providing one-to-one matching funds, through the Biofuel Infrastructure Partnership, to install nearly 5,000 pumps offering higher blends of ethanol nationwide. Through the Biofuel Infrastructure Partnership, USDA is testing innovative ways to distribute higher blends of renewable fuel. As of September 30, 2017, CCC's advance related to the Biofuels Infrastructure program was $14 million.

Various Grantees, via USAID

The USAID program covers transportation-related costs in accordance with P.L. 480 under the authority of the Secretary of Agriculture. The Food for Peace Title II program provides emergency and non-emergency food assistance to other countries. Advances occur when funds are disbursed to a grantee providing transportation services for commodities being delivered prior to the submittal of the expenses. CCC uses an estimation methodology to calculate and report the advance posted periodically to its accounting system of record. As of September 30, 2017, CCC's advance related to the Food for Peace Title II program was $9 million.

Note 10 – Liabilities Not Covered by Budgetary Resources

Liabilities not Covered by Budgetary Resources as of September 30, 2017 were as follows:

Table 27: Total Liabilities

	(In Millions)
	2017
Public:	
Environmental and Disposal Liabilities (Note 14)	$ 19
Undeposited/Unapplied Collections (in Treasury Suspense Fund)	8
Total Liabilities not covered by budgetary resources	$ 27
Total Liabilities covered by budgetary resources	$ 20,223
Total Liabilities	$ 20,250

Note 10 – Liabilities Not Covered by Budgetary Resources, Continued

Liabilities not Covered by Budgetary Resources

Unfunded liabilities are not covered by budgetary resources or offsetting collections. An OMB apportionment and/or collection of cash is needed to provide budgetary resources and allow payment of the liability in a future period.

Liabilities Covered by Budgetary Resources

Funded liabilities are payables and accruals for which CCC has not yet paid as of the end of the fiscal year. As of September 30, 2017, the majority of the open liability for CCC was $10 billion in payables for principal due to the Bureau of Fiscal Service, $9.2 billion in program liabilities, $856 million in pre-credit reform liabilities payable to Treasury and $182 million in subsidy payable to Treasury.

Note 11 – Debt to the Treasury

Debt to the Treasury, categorized as interest bearing, as of September 30, 2017 was as follows:

Table 28: Debt to Treasury, Categorized as Interest Bearing

	(In Millions)		
	2017		
	Non-Credit Reform	Credit Reform	Total
Debt, as of September 30			
Principal	$ 8,150	$ 1,800	$ 9,950
Accrued Interest Payable	-	-	-
Total Debt Outstanding, as of September 30, 2017	$ 8,150	$ 1,800	$ 9,950

Non-Credit Reform

CCC has permanent indefinite borrowing authority up to $30 billion that is used by a revolving fund to finance most of its programs. CCC borrows and repays on a daily basis, and may borrow, interest-free, up to the amount of the prior year unreimbursed realized losses until reimbursed. Monthly interest rates on borrowing authority fluctuated between 0.63% and 1.25% during FY 2017.

Note 11 – Debt to the Treasury, Continued

Credit Reform

CCC also has permanent indefinite borrowing authority that is used by credit reform programs to finance disbursements on post-1991 credit reform direct credit and loan obligations and credit guarantees. CCC borrows from Treasury for the entire fiscal year based on annual estimates of the difference between the amount appropriated (subsidy) and the amount to be disbursed to the borrower. The effective date for borrowings is October 1. CCC may repay the loan agreement, in whole or in part, prior to maturity by paying the principal amount of the borrowings plus accrued interest up to the date of repayment. Interest is paid annually on these borrowings based on weighted average interest rates for the cohort to which the borrowings are associated.

The FY 2017 interest rates on long-term borrowings under the permanent indefinite borrowing authority for CCC's credit reform programs are calculated using the OMB CSC2. For 2001 and subsequent cohorts, the single effective interest rate produced from the calculator, along with budget assumptions, is used to calculate interest expenses for CCC's credit reform programs.

Interest on borrowings from Treasury is paid at a rate based upon the average interest rate of all outstanding marketable obligations (of comparable maturity date) of the U.S. Government as of the preceding month.

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Non-credit reform borrowing is tied to the 1 year Treasury borrowing rate which is in effect on the date that a borrowing occurs. Treasury's one year rate – which is subject to change from month to month – is certified monthly by Treasury in their notification to CCC. The Treasury one year loan rate is based upon the average market yields of the preceding 30 days at the time Treasury issues certification of the subsequent monthly rate.

Note 12 – Deposit and Trust Liabilities

Deposit and Trust Liabilities are amounts advanced to or deposited with CCC on behalf of other entities. The balance of $22 million, all categorized as public, as of September 30, 2017, consists of unapplied collections for warehouse user fees, claims for disaster programs, and other miscellaneous collections that are temporarily held in suspense until applied.

Note 13 – Other Liabilities

Other Liabilities (Current) as of September 30, 2017, were as follows:

Table 29: Other Liabilities

	(In Millions) 2017
Intragovernmental:	
Resources Payable to Treasury:	
P.L.480 Direct Credit Liquidating Fund	$ 854
Export Credit Guaranteed Loans Liquidating Fund	2
Total Resources Payable to Treasury	$ 856
Excess Subsidy Payable to Treasury	$ 182
Other Intragovernmental Liabilities:	
Custodial Liability	5
Accrued Liabilities (Note 15)	3
Total Other Intragovernmental Liabilities	$ 8
Public:	
Other	$ 11
Total Public Other Liabilities	$ 11

Resources Payable to Treasury represents CCC's liquidating fund assets (cash and loans receivable, net of an allowance) less any liabilities that may be held as working capital. Loans made before FY 1992 (pre-credit reform direct loans and assigned loan guarantees) are accounted for in liquidating funds. These funds collect loan payments and pay any related expenses or default claims. At the end of each fiscal year, any unobligated cash balance is transferred to Treasury.

The Excess Subsidy Payable to Treasury is the downward reestimate owed to Treasury from the financing fund.

Custodial Collections

CCC's custodial activities involve the collection and transfer of funds received from the public on behalf of Treasury, FSA, and other USDA agencies. These collections include amounts related to FSA fees, as well as other interest, fees, and penalties due to Treasury and other USDA agencies. These are not part of CCC budget authority.

Note 14 – Environmental and Disposal Liabilities

From the late 1930's until the mid-1970's, the Corporation operated approximately 4,500 grain storage facilities in the U.S. as part of USDA's price support program for American farmers. The facilities were privately owned and leased by CCC primarily in Midwestern States where the majority of the grain production was high and access to commercial storage facilities was limited. Because much of the grain was stored for extended periods of time, it was periodically necessary to fumigate the grain in order to control destructive insects. The fumigant mixture most commonly used contained the chlorinated solvent carbon tetrachloride. The fumigant was the accepted industry standard at that time for stored grain. Carbon tetrachloride was used as a pesticide for the stored grain until it was banned by the Environmental Protection Agency (EPA) in 1985 as a potential human carcinogen.

In 1988 the first discovery of ground water contaminated with carbon tetrachloride in the vicinity of a CCC grain storage facility was made. Since then, CCC, in coordination with the EPA and the respective states, have been engaged in an active program to identify affected sites and respond with appropriate action to safeguard public health and protect the environment. In addition to addressing the contaminated sites initially identified, CCC funded and conducted a private well-sampling program at more than 600 former CCC grain storage facilities in Missouri, Kansas, and Nebraska. This sampling program identified numerous sites where some level of carbon tetrachloride contamination was present. The total number of CCC sites where some level of contamination was present is 83 known locations, of which 29 have been either remediated or no further action is required.

Addressing these formerly leased grain storage facility sites, most of which are located on private property, has been the focus of CCC's hazardous waste cleanup program to date. Many of these former CCC sites have ground water contamination above the federal drinking water standard. EPA and state regulators continue to conduct soil and water sampling to identify any additional contaminated CCC sites that may pose a potential threat to public health or have contaminant levels that exceed natural resource degradation standards. Based on the due diligence procedures performed to date, in partnership with EPA and State Agencies, CCC determined that there are few, if any, sites which are not reported by CCC as of September 30, 2017.

Site investigations are conducted to determine CCC's level of liability related to the contamination. Site investigation programs involve the review of existing documentation,

Note 14 – Environmental and Disposal Liabilities, Continued

development and implementation of sampling plans, installation of monitoring wells and sample points, contaminant distribution modeling, dynamic risk assessment, and remedial alternatives analysis. Additional costs are often incurred during negotiations with regulatory agencies regarding a selected remedy. Remedial activities can range from the design and implementation of a monitoring system to the engineering design, construction, and operation and maintenance of a groundwater extraction and treatment system. CCC makes every effort to develop rational and defensible remedial options and alternatives that are cost effective while protecting public health and the environment.

Funding requests and expected liabilities tied to these activities are based on anticipated site investigation and/or potential remedial action including construction of treatment systems. A portion of the requested funding is also required to support ongoing operations and maintenance activity at existing sites where remedial actions are ongoing and any additional sites identified where remedial activity is in the planning stages. CCC uses operations and maintenance funding, to support groundwater monitoring programs already in place or being developed in support of anticipated remedial actions. The funding is used for an intragovernmental agreement with the Department of Energy to establish reimbursable agreements to do analysis, implementation and operations and maintenance of existing systems. There are currently several sites where CCC is conducting active monitoring programs where investigations have been completed or remedial action is ongoing or likely. These monitoring programs are being conducted as directed by State regulatory agencies or the U.S. EPA.

Liability estimates are derived using a system that categorizes the existing sites. The funding requests and expected associated liabilities are based on the specific categories described below, with site counts as of September 30, 2017:

• Category I represents 8 CCC sites where there is least uncertainty regarding the pending action and associated costs. The upper bound estimates reflect the highest estimated cost that could be incurred to remediate the site to acceptable standards.

• Category II are 22 sites where CCC has conducted at least a limited site investigation and the liability associated with these sites has been evaluated assuming remedial action will be required. A range of values has been determined and is used to

Note 14 – Environmental and Disposal Liabilities, Continued

reflect a range of potential costs. Cost figures are based on program experience and typical treatment system designs. The costs identified as “low” are assumed to employ a natural migration/monitoring design. The costs identified as “high” represent a treatment system designed to actively remove or attenuate the contaminant.

- Category III represents 24 sites where contamination levels above the maximum allowable levels have been found. CCC has not conducted a site characterization at these sites. The costs are estimated using a range of values. The "low" value represents the cost of a limited data evaluation. The “high” values represent a thorough site characterization to include a feasibility study and some degree of remedial action.

CCC recorded a total liability for remediation of affected sites of $21.0 million in FY 2017, of which $18.8 million was not covered by budgetary resources. CCC estimates the range of potential future losses due to remedial actions to be between $21.0 million and $156.2 million.

Note 15 – Accrued Liabilities

Accrued Liabilities as of September 30, 2017, were as follows:

Table 30: Accrued Liabilities

	(In Millions) 2017
Intragovernmental:	
Other	$ 3
Total Intragovernmental Liabilities	$ 3
Public:	
Conservation Reserve Program	$ 1,743
Income Support Programs:	
Agriculture Risk Coverage Program	3,779
Price Loss Coverage Program	3,349
Disaster Assistance Program	6
Other	13
Total Public Liabilities	$ 8,890
Total Accrued Liabilities	$ 8,893

The CRP accrued liability consists of annual rental payments estimated on approved contracts, expected to be paid in FY 2018. The ARC and PLC accruals consist of crop year 2016 program payments which began in October 2017 and continue throughout FY 2018, as price and yield data are finalized.

Conservation Reserve Program

CRP helps owners and operators of highly erodible cropland conserve and improve the soil and water resources of their farms or ranches. CCC provides annual rental payments for the cropland to be set aside with 10 to 15 year contracts, and cost-share assistance to perform conservation measures on the set-aside land. In addition incentives may be offered for signing up for certain conservation practices. Transition incentives are to encourage retiring farmers and ranchers to transfer expiring CRP land to a beginning or socially disadvantaged farmer or rancher.

Note 15 – Accrued Liabilities, Continued

Agriculture Risk Coverage and Price Loss Coverage Program

The ARC and PLC Programs replaced the Direct and Counter-Cycle (DCP) and Average Crop Revenue Election (ACRE) and ACRE Direct Payments programs. ARC and PLC provide revenue and price loss payments to eligible producers.

Note 16 – Commitments and Contingencies

A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. A loss contingency is a liability when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable.

Legal Disputes and Claims

In the normal course of business, CCC becomes involved in various legal disputes and claims. CCC vigorously defends its position in such actions through USDA OGC and DOJ.

As of September 30, 2017, no pending legal matters exist that were considered probable or reasonably possible, which require recognition (accrual) in the Consolidated Balance Sheet or require further disclosure.

Note 17 – Transactions with Related Parties

There are reimbursable agreements without advance with various USDA agencies, including NRCS, FSA, FNS and FAS. Amounts due from related parties are presented as intragovernmental accounts receivable on the Consolidated Balance Sheet. Amounts due to related parties are presented as intragovernmental accounts payable on the Consolidated Balance Sheet.

Part IV: Other Information (Unaudited)

Introduction to Other Information

The information contained in this section is unaudited.

CCC's Other Information for FY 2017 consists of financial statements, related notes, and other information other than that contained in the audited Consolidated Balance Sheet section of this report. These financial statements have been prepared to report results of operations of CCC. Except for being presented as other information, the unaudited Consolidated Statement of Net Cost, unaudited Consolidated Statement of Changes in Net Position and unaudited Combined Statement of Budgetary Resources have been prepared from the books and records of CCC in accordance with U.S. GAAP, as promulgated by FASAB.

The unaudited Consolidated Statement of Net Cost presents the net cost of CCC operations, which are comprised of the gross costs incurred by CCC less any exchange revenue earned from CCC activities.

The unaudited Consolidated Statement of Changes in Net Position presents the change in CCC's net position resulting from the net cost of CCC operations, budgetary financing sources other than exchange revenues, and other financing sources for the fiscal year ended September 30, 2017. The components are separately displayed in two sections, namely Cumulative Results of Operations and Unexpended Appropriations.

The unaudited Combined Statement of Budgetary Resources presents budgetary resources available to CCC, the use or status of these resources at year-end, the change in obligated balance, and outlays of budgetary resources for the year ended September 30, 2017. Subject to Appropriation Law, CCC has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires the use of CCC's borrowing authority or enactment of an appropriation. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds.

The Combining Schedule of Budgetary Resources by Major Fund for FY 2017 provides additional information on amounts presented in the Combined Statement of Budgetary Resources.

The Fraud Reduction Report is presented in accordance with the requirements of OMB Circular A-136, *Financial Reporting Requirements*. This report provides information regarding CCC's efforts to identify and reduce incidents of fraud.

The Summary of Federal Grant and Cooperative Agreement awards is presented in accordance with the Grants Oversight and New Efficiency (GONE) Act. This summary provides information on federal grants and cooperative agreements held for which closeout has not yet occurred but for which the period of performance has been expired for more than two years, as well as any undisbursed or zero balances in that award.

Commodity Credit Corporation
CONSOLIDATED STATEMENT OF NET COST (Unaudited)
For the Year Ended September 30, 2017
(In Millions)

		2017
Strategic Goals (Note 5-Unaudited):		
Provide a Financial Safety Net for Farmers and Ranchers		
Gross Cost	$	8,745
Less: Earned Revenue		136
Net Goal Cost	$	8,609
Increase Stewardship of Natural Resources While Enhancing the Environment		
Gross Cost	$	2,397
Less: Earned Revenue		12
Net Goal Cost	$	2,385
Ensure Commodities are Procured and Distributed Effectively and Efficiently		
Gross Cost	$	118
Less: Earned Revenue		31
Net Goal Cost	$	87
Increase U.S. Food and Agricultural Exports		
Gross Cost	$	2,129
Less: Earned Revenue		88
Net Goal Cost	$	2,041
Total Gross Cost	$	13,389
Less: Total Earned Revenue		267
Net Cost of Operations	$	13,122

The accompanying notes are an integral part of the statements presented in the "Other Information" section

Commodity Credit Corporation
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION (Unaudited)
For the Year Ended September 30, 2017
(In Millions)

		2017
Capital Stock	$	100
Cumulative Results of Operations:		
Beginning Balance	$	(22,983)
Budgetary Financing Sources:		
Appropriations Used		22,744
Non-exchange Revenue		4
Transfers in/out without Reimbursement, Net		(4,078)
Other Financing Sources (Non-Exchange):		
Imputed Financing		1,345
Other		(40)
Total Financing Sources	$	19,975
Net Cost of Operations		(13,122)
Net Change	$	6,853
Cumulative Results of Operations	$	(16,130)
Unexpended Appropriations:		
Beginning Balance	$	1,259
Budgetary Financing Sources:		
Appropriations Received		22,945
Appropriations Transferred in/out		300
Other Adjustments		(4)
Appropriations Used		(22,744)
Total Budgetary Financing Sources	$	497
Total Unexpended Appropriations	$	1,756
Net Position	$	(14,274)

The accompanying notes are an integral part of the statements presented in the "Other Information" section

Commodity Credit Corporation

COMBINED STATEMENT OF BUDGETARY RESOURCES (Unaudited)

For the Year Ended September 30, 2017

(In Millions)

	2017 Budgetary	2017 Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:		
Unobligated balance brought forward, October 1	$ 551	$ 143
Adjustment to unobligated balance brought forward, October 1 (Note 6-Unaudited)	72	-
Unobligated balance brought forward, October 1, as adjusted	623	143
Recoveries of prior year unpaid obligations	3,891	7
Other changes in unobligated balance	109	(34)
Unobligated balance from prior year budget authority, net	4,623	116
Appropriations (discretionary and mandatory)	1,957	-
Borrowing Authority (discretionary and mandatory)	14,451	275
Spending authority from offsetting collections (discretionary and mandatory)	20	145
Total Budgetary Resources	$ 21,051	$ 536
Status of Budgetary Resources:		
Obligations Incurred (Note 6-Unaudited)	$ 20,299	$ 350
Unobligated balance, end of year:		
Apportioned, unexpired account	190	48
Exempt from apportionment, unexpired accounts	84	3
Unapportioned, unexpired accounts	477	135
Unexpired unobligated balance, end of year	751	186
Expired unobligated balance, end of year	1	-
Total unobligated balance, end of year	752	186
Total Budgetary Resources	$ 21,051	$ 536
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	$ 23,870	$ 124
Adjustment to unpaid obligations, start of year (Note 6-Unaudited)	8,554	-
Obligations incurred	20,299	350
Outlays (gross)	(19,893)	(309)
Recoveries of prior year unpaid obligations	(3,891)	(7)
Unpaid obligations, end of year	28,939	158
Uncollected payments:		
Uncollected payments, Federal sources, brought forward, Oct 1	(137)	(14)
Change in uncollected payments, Federal sources	14	13
Uncollected payments, Federal sources, end of year	(123)	(1)
Memorandum (non-add) entries:		
Obligated balance, start of year as adjusted (Note 6-Unaudited)	$ 32,287	$ 110
Obligated balance, end of year	$ 28,816	$ 157
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 16,428	$ 420
Actual offsetting collections (discretionary and mandatory)	(7,819)	(383)
Change in Uncollected Payments, Federal Sources (discretionary and mandatory)	14	13
Recoveries of prior year paid obligations (discretionary and mandatory)	136	-
Budget authority, net (discretionary and mandatory)	$ 8,759	$ 50
Outlays, gross (discretionary and mandatory)	$ 19,893	$ 309
Actual offsetting collections (discretionary and mandatory)	(7,819)	(383)
Outlays, net (discretionary and mandatory)	12,074	(74)
Distributed offsetting receipts	5	(48)
Agency Outlays, net (discretionary and mandatory)	$ 12,079	$ (122)

The accompanying notes are an integral part of the statements presented in the "Other Information" section

Notes to the Financial Statements other than the Consolidated Balance Sheet

Note 1 - Accounting Policies- Financial Statements other than Consolidated Balance Sheet (Unaudited)

Note 1 of the unaudited Other Information, incorporates, by reference, the Accounting Policies previously presented in the audited section of this report. Any additional information related specifically to the unaudited portions of the report is addressed in this Note.

Basis of Presentation

Except for being presented as other information, the Corporation's financial statements in this section have been prepared from the accounting records of CCC as of September 30, 2017, in accordance with generally accepted accounting principles promulgated by FASAB. This statement has been prepared for the Corporation which is a component of the U.S. Government, a sovereign entity.

The statements are in addition to the external financial reports used to monitor and control budgetary resources, which are also prepared from CCC's general ledger.

Basis of Accounting

The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds. The financial statements include all Treasury funds of CCC, which encompass its domestic and foreign activities. CCC consolidates all costs related to its child activities for the allocated funds transfers and shared appropriations. Refer to the Allocation Transfers and Shared Appropriations section of this note for parent-child information. In consolidation, intra-agency activities and balances have been eliminated except for the Statement of Budgetary Resources, which is presented on a combined basis.

Note 1 - Accounting Policies- Financial Statements other than Consolidated Balance Sheet (Unaudited), Continued

Imputed Financing (also known as Imputed Costs)

Imputed financing represent costs incurred by other USDA agencies for the benefit of CCC. In accordance with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal* Government, CCC's full cost incorporates the full cost of goods and services that it receives from other entities. As previously stated, CCC has no employees or facilities. Thus, CCC executes its various programs using the manpower and facilities of other agencies, primarily FSA. The imputed financing consists of the costs of hired labor, opportunity costs of unpaid labor, capital recovery of machinery and equipment, opportunity costs of land, general overhead, payroll taxes, and insurance expended by FSA for work on CCC programs.

Custodial Collections

CCC's custodial activities involve the collection and transfer of funds received from the public on behalf of Treasury, FSA, and other USDA agencies. These collections include amounts related to FSA fees, as well as other interest, fees, and penalties due to Treasury and other USDA agencies. These are not part of CCC budget authority.

Budgetary Resources

Budgetary resources are amounts available to enter into new obligations and to liquidate them. CCC's budgetary resources include unobligated balances of resources from prior years; recoveries of prior-year obligations; and new resources, which include appropriations, authority to borrow from Treasury, and spending authority from collections.

CCC receives direct appropriations for Food for Peace, CCC Export Credit Guarantee, and funding for its net realized losses.

CCC has permanent indefinite borrowing authority, as defined by OMB Circular A-11, authorizing CCC to incur obligations and borrow funds from Treasury to liquidate its obligations. There is no statutory limit on CCC's aggregate obligations but expenditures of borrowing authority cannot exceed the $30 billion ceiling established in Section 4(i) of the CCC Charter Act at any point in time. For Credit-Reform programs, FCRA provides indefinite borrowing authority to CCC to fund the unsubsidized portion of direct loans and to satisfy obligations in the event the financing account's resources are insufficient. For loan guarantees, CCC may borrow from Treasury, as needed, when balances in the financing account are insufficient to pay claims.

Note 1 - Accounting Policies- Financial Statements other than Consolidated Balance Sheet (Unaudited), Continued

Receipts flowing through CCC’s revolving fund include proceeds from the sale of CCC commodities, marketing assistance loan repayments, interest income, and various program fees. Principal and interest repayments from outstanding loans are the main collections for credit reform programs.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. For example, under U.S. GAAP, Accrued Liabilities must be estimated and recorded if the event creating the liability has occurred, even if an invoice or payment request has not been received and the precise amount is unknown, as long as the amount can reasonably be estimated. Actual results will likely differ from those estimates.

Note 2 – Direct Loans Subsidy Cost Allowance and Loan Guarantee Liability - (Unaudited)

Schedule for Reconciliation

The table below reflects the Subsidy Cost Allowance for both direct loans and loans receivable derived from those defaulted guaranteed loans.

Table 31: Schedule for Reconciling Subsidy Cost Allowance Balances Direct Loans (Unaudited)

	(In Millions) 2017
Beginning Balance of the Subsidy Cost Allowance	$ 738
Add: Subsidy expense for direct loans disbursed during the year by component	
Interest Rate Differential Costs	(2)
Total Subsidy Expense prior to Adjustments and Reestimates	$ (2)
Adjustments:	
Loans Written Off	$ (260)
Subsidy Allowance Amortization	(7)
Accruals - Default Reestimates	16
Other	(8)
Total Subsidy Cost Allowance before Reestimates	$ 477
Add or Subtract Reestimates by Component:	
Interest Rate Reestimate	$ (5)
Technical/Default Reestimate	(89)
Total Reestimates	$ (94)
Ending Balance of the Subsidy Cost Allowance	$ 383

Note 2 – Direct Loans Subsidy Cost Allowance and Loan Guarantee Liability (Unaudited), Continued

The change in the liability for credit guarantees as of September 30, 2017, was as follows:

Table 32: Schedule for Reconciling Loan Guarantee Liability (Unaudited)

	(In Millions) 2017
Beginning balance of the loan guarantee liability	$ 6
Add: Subsidy expense for guaranteed loans disbursed during the year by component	
Fees and other collections	9
Other subsidy costs	(5)
Total of the above subsidy expense components	$ 4
Adjustments:	
Claim payments to lenders	$ (12)
Other	10
Ending balance of the Loan Guarantee Liability before reestimates	$ 8
Add or Subtract reestimates by component:	
Technical/default reestimate	$ 5
Total of the above reestimate components	$ 5
Ending balance of the loan guarantee liability	$ 13

Note 3 – Commodity Inventory and Related Property, Net (Unaudited)

Commodity inventory and related property as of September 30, 2017 (Values in Thousands) was as follows:

Table 33: Inventory and Related Property (Unaudited)

		Beginning Inventory October 1, 2016		Acquisitions (Unaudited)		Collateral Acquired (Unaudited)		Other Disposition, Addition, & Deduction (Unaudited)		Donations (Unaudited)		**Ending Inventory** September 30, 2017	
	Unit of Measure	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Dry Edible Beans	Cwt.	70	$ 2,448	87	$ 3,244	-	$ -	-	$ -	(157)	$ (5,692)	-	$ -
Beans Total		**XXX**	**$ 2,448**	**XXX**	**$ 3,244**	**XXX**	**$ -**	**XXX**	**$ -**	**XXX**	**$ (5,692)**	**XXX**	**$ -**
Corn Soya Blend	Pounds	27,192	$ 9,488	95,877	$ 30,582	-	$ -	11	$ (1,711)	(118,636)	$ (36,623)	4,444	$ 1,736
Blended Foods Total		**XXX**	**$ 9,488**	**XXX**	**$ 30,582**	**XXX**	**$ -**	**XXX**	**$ (1,711)**	**XXX**	**$ (36,623)**	**XXX**	**$ 1,736**
Miscellaneous	Cwt	-	-	-	$ 9,723	-	-	-	-	-	$ (9,723)	-	-
CCC Total		**XXX**	**$ -**	**XXX**	**$ 9,722**	**XXX**	**$ -**	**XXX**	**$ -**	**XXX**	**$ (9,722)**	**XXX**	**$ -**
Upland Cotton	Bales	-	-	-	-	206	$ 99	(206)	$ (99)	-	-	-	-
Cotton Total		**XXX**	**$ -**	**XXX**	**$ -**	**XXX**	**$ 99**	**XXX**	**$ (99)**	**XXX**	**$ -**	**XXX**	**$ -**
Dry Whole Peas	Cwt.	222	$ 5,226	2,792	$ 69,997	-	$ -	-	$ 171	(2,773)	$ (68,646)	241	$ 6,748
Lentils Dry	Cwt.	5	274	350	13,766	-	-	-	55	(344)	(13,739)	11	356
Dry Whole Peas Total		**XXX**	**$ 5,500**	**XXX**	**$ 83,763**	**XXX**	**$ -**	**XXX**	**$ 226**	**XXX**	**$ (82,385)**	**XXX**	**$ 7,104**
Corn	Bushels	-	$ -	393	$ 1,661	-	$ -	-	$ -	(393)	$ (1,661)	-	$ -
Corn Meal	Pounds	6,371	762	81,389	13,013	-	-	12	411	(84,774)	(13,315)	2,998	871
Grain Sorghum	Bushels	31	257	15,476	68,904	-	-	-	782	(15,286)	(67,928)	221	2,015
Feed Grains Total		**XXX**	**$ 1,019**	**XXX**	**$ 83,578**	**XXX**	**$ -**	**XXX**	**$ 1,193**	**XXX**	**$ (82,904)**	**XXX**	**$ 2,886**
Peanuts	Pounds	-	-	-	-	55,718	$ 9,701	(125)	$ (23)	-	-	55,593	$ 9,678
Peanut Total		**XXX**	**$ -**	**XXX**	**$ -**	**XXX**	**$ 9,701**	**XXX**	**$ (23)**	**XXX**	**$ -**	**XXX**	**$ 9,678**
Milled Head Rice	Cwt.	32	$ 811	2,424	$ 46,750	-	$ -	-	$ (94)	(2,445)	$ (47,219)	11	$ 248
Rice Total		**XXX**	**$ 811**	**XXX**	**$ 46,750**	**XXX**	**$ -**	**XXX**	**$ (94)**	**XXX**	**$ (47,219)**	**XXX**	**$ 248**
Soybean Meal	Pounds	-	$ -	75,502	$ 12,675	-	$ -	-	$ -	(75,502)	$ (12,675)	-	$ -
Soybean Total		**XXX**	**$ -**	**XXX**	**$ 12,675**	**XXX**	**$ -**	**XXX**	**$ -**	**XXX**	**$ (12,675)**	**XXX**	**$ -**
Vegetable Oil	Pounds	10,139	$ 5,717	195,988	$ 97,565	-	$ -	-	$ 1,462	(185,444)	$ (91,592)	20,683	$ 13,152
Vegetable Oil Products Total		**XXX**	**$ 5,717**	**XXX**	**$ 97,565**	**XXX**	**$ -**	**XXX**	**$ 1,462**	**XXX**	**$ (91,592)**	**XXX**	**$ 13,152**
Bulgur	Pounds	-	$ -	2,958	$ 415	-	$ -	-	$ -	(2,958)	$ (415)	-	$ -
Flour	Pounds	-	-	1,988	356	-	$ -	-	-	(1,988)	(356)	-	-
Wheat	Bushels	-	-	25,286	133,835	18,920	57,206	(18,903)	(57,156)	(25,286)	(133,835)	17	50
Wheat Total		**XXX**	**$ -**	**XXX**	**$ 134,606**	**XXX**	**$ 57,206**	**XXX**	**$ (57,156)**	**XXX**	**$ (134,606)**	**XXX**	**$ 50**
Total Commodities		**XXX**	**$ 24,983**	**XXX**	**$ 502,485**	**XXX**	**$ 67,006**	**XXX**	**$ (56,202)**	**XXX**	**$ (503,418)**	**XXX**	**$ 34,854**
Commodity Inventory and Related Property, Net													**$ 34,854**

Note: Due to distinct units of measure, Quantity totals are not tabulated, and are denoted as xxx.

Note 3 – Commodity Inventory and Related Property, Net (Unaudited), Continued

Generally, disposition costs are based on the average cost of the commodity in inventory at the end of the previous month. In other cases, the cost is computed on the basis of actual (historical) cost of the commodity. Actual cost is used with: (a) simultaneous acquisition and disposition for commodity export programs; and (b) dispositions of commodities previously pledged as price support loan collateral, which are acquired and simultaneously disposed of by CCC during the exchange of commodity certificates. Commodity certificates are issued by CCC and must be immediately exchanged for a commodity owned by the Corporation.

CCC purchases commodities for USAID in order to meet humanitarian food needs in foreign countries. This prepositioned inventory is procured and made readily available as needed for foreign countries in need. This is done in advance because the process from procurement to delivery can be lengthy and by having the inventory available, these food needs can be met more timely. Both domestic and foreign prepositioned inventory are recorded on CCC's balance sheet.The amount and volume of commodities that were received as a result of forfeitures related to nonrecourse loans is shown in the chart above as "Collateral Acquired." In FY 2017, peanuts were forfeited due to higher acreage and higher yields causing issues in storage capacity and processing. The wheat activity represent MALs redeemed by CCE during the first quarter of FY 2017. Additionally, there was a small amount of hard red winter wheat forfeited to CCC.

Note 4 – Debt to the Treasury (Unaudited)

Debt to the Treasury, categorized as interest bearing as of September 30, 2017, was as follows:

Table 34: Debt to Treasury, Categorized as Interest Bearing (Unaudited)

	(In Millions)		
	2017		
	Non-Credit Reform	Credit Reform	Total
Debt, beginning of Fiscal Year			
Principal	$ 14,674	$ 1,783	$ 16,457
Accrued Interest Payable	-	-	-
Total Debt Outstanding, Beginning of Fiscal Year	$ 14,674	$ 1,783	$ 16,457
New Debt			
Principal	$ 3,148,964	$ 344	$ 3,149,308
Accrued Interest Payable	79	73	152
Total New Debt	$ 3,149,043	$ 417	$ 3,149,460
Repayments			
Principal	$ (3,155,488)	$ (327)	$ (3,155,815)
Accrued Interest Payable	(79)	(73)	(152)
Total Repayments	$ (3,155,567)	$ (400)	$ (3,155,967)
Debt, as of September 30			
Principal	$ 8,150	$ 1,800	$ 9,950
Accrued Interest Payable	-	-	-
Total Debt Outstanding as of September 30	$ 8,150	$ 1,800	$ 9,950

Excluding transactions related to credit reform, CCC borrows and repays all of its outstanding debt to Treasury each business day. The amount CCC borrows and repays is increased or decreased based on net cash activity for receipts and disbursements occurring since the previous business day.

CCC incurred $2 million in interest expense on capital stock for FY 2017, which is separate from the interest expense on Treasury borrowings.

Note 5 – Disclosures Related to the Statement of Net Cost (Unaudited)

Earned Revenue

Revenue and expense are recognized based on SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*. CCC follows SFFAS No. 7 for classifying, recognizing, and measuring inflows of resources. Earned revenues are exchange revenues, which arise when a federal entity provides goods and services to the public or to another government entity for a price.

Earned Revenue for the fiscal year ended September 30, 2017, was as follows:

Table 35: Earned Revenue (Unaudited)

	(In Millions)
	2017
Intragovernmental Earned Revenue:	
Earned Revenue	$ 12
Interest Income	17
Total Intragovernmental Earned Revenue	$ 29
Earned Revenue from the Public:	
Commodity Inventory and Commodity Certificate Sales	$ 52
Interest Income	186
Total Earned Revenue from the Public	$ 238
Total Earned Revenue	$ 267

The Statement of Net Cost presents costs and associated earned revenues in alignment with CCC's strategic goals, stated below:

Provide a Financial Safety Net for Farmers and Ranchers

Under this strategic goal, program areas include Income support and disaster assistance. CCC provides financial assistance to protect farmers and ranchers from fluctuations in market conditions and unexpected natural or man-made disasters. Assistance is provided through income support programs, disaster assistance programs, and the NAP. FSA administers CCC income support and disaster assistance programs, the largest of which are ARC and PLC, with nearly 1.7 million farms enrolled, and are USDA's primary farm safety net programs.

Note 5 – Disclosures Related to the Statement of Net Cost (Unaudited), Continued

Increase Stewardship of Natural Resources While Enhancing the Environment

The program under this strategic goal is Conservation. Supported by the 2008 Farm Bill, and extended by the 2014 Farm Bill, conservation programs offer farmers and ranchers a variety of financial and economic incentives to conserve natural resources on the nation's privately owned farmlands. These programs focus on reducing erosion, protecting streams and rivers, restoring and establishing fish and wildlife habitats, and improving air quality through several conservation incentive payments, technical assistance, and cost-share programs. FSA and NRCS administer CCC conservation programs.

Ensure Commodities are Procured and Distributed Effectively and Efficiently

Under this strategic goal, program areas include Commodity Operations and Food Aid. FSA oversees the procurement, acquisition, storage, disposition, and distribution of commodities, and the administration of USWA. These programs help achieve domestic farm program price support objectives, produce a uniform regulatory system for storing agricultural products, and ensure the timely provision of food products for domestic and international food assistance programs and market development programs. FAS administers the Food for Progress Program, which provides food aid to countries that are emerging democracies and are committed to introducing and expanding free enterprise in the agricultural sector. Food aid addresses participating countries' hunger and helps to build longer term economic development that boosts trade opportunities for the United States and other countries.

Increase U.S. Food and Agricultural Exports

Under this strategic goal, program areas include Market Development and Export Credit.

Expanding markets for agricultural products are critical to the long-term health and prosperity of the U.S. agricultural sector. With 95 percent of the world's population living outside the United States, future growth in demand for food and agricultural products will occur primarily in overseas markets. CCC funds used in the market development programs play a critical role in helping to open new markets and in facilitating U.S. competitiveness, helping to secure a more prosperous future for American agriculture. Support for economic development and trade capacity building reinforces these efforts by

Note 5 – Disclosures Related to the Statement of Net Cost (Unaudited), Continued

helping developing countries to become economically stable and improve their prospects to participate in and benefit from expanding global trade in agricultural products. FAS administers CCC foreign market development programs.

CCC export credit guarantee and direct loan programs, administered by FAS in conjunction with FSA, provide payment guarantees for third-party commercial financing and direct financing of U.S. agricultural exports. These programs facilitate exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without CCC credit facilities.

Note 5 – Disclosures Related to the Statement of Net Cost (Unaudited), Continued

Table 36: Costs and Earned Revenue by Strategic Goal and Program (Unaudited)

(Values in Millions)	Income Support and Disaster Assistance	Conservation Programs	Commodity Operations and Food Aid	Market Development and Export Credit	Total
Provide a Financial Safety Net for Farmers and Ranchers					
Intragovernment Cost	$ 767	$ -	$ 127	$ -	$ 894
Public Cost	7,845	-	6	-	7,851
Total Cost	$ 8,612	$ -	$ 133	$ -	$ 8,745
Intragovernment Earned Revenue	$ -	$ -	$ -	$ -	$ -
Public Earned Revenue	136	-	-	-	136
Total Earned Revenue	$ 136	$ -	$ -	$ -	$ 136
Increase Stewardship of Natural Resources While Enhancing the Environment					
Intragovernment Cost	$ -	$ 500	$ -	$ -	$ 500
Public Cost	-	1,897	-	-	1,897
Total Cost	$ -	$ 2,397	$ -	$ -	$ 2,397
Intragovernment Earned Revenue	$ -	$ 11	$ -	$ -	$ 11
Public Earned Revenue	-	1	-	-	1
Total Earned Revenue	$ -	$ 12	$ -	$ -	$ 12
Ensure Commodities are Procured and Distributed Effectively and Efficiently					
Intragovernment Cost	$ 22	$ -	$ 90	$ -	$ 112
Public Cost	6	-	-	-	6
Total Cost	$ 28	$ -	$ 90	$ -	$ 118
Intragovernment Earned Revenue	$ 11	$ -	$ -	$ -	$ 11
Public Earned Revenue	11	-	9	-	20
Total Earned Revenue	$ 22	$ -	$ 9	$ -	$ 31
Increase U.S. Food and Agricultural Exports					
Intragovernment Cost	$ -	$ -	$ -	$ 71	$ 71
Public Cost	-	-	-	2,058	2,058
Total Cost	$ -	$ -	$ -	$ 2,129	$ 2,129
Intragovernment Earned Revenue	$ -	$ -	$ -	$ 7	$ 7
Public Earned Revenue	-	-	-	81	81
Total Earned Revenue	$ -	$ -	$ -	$ 88	$ 88
Total Gross Cost	**$ 8,640**	**$ 2,397**	**$ 223**	**$ 2,129**	**$ 13,389**
Less: Total Earned Revenue	**158**	**12**	**9**	**88**	**267**
Net Cost of Operations	**$ 8,482**	**2,385**	**$ 214**	**$ 2,041**	**$ 13,122**

Note 6 – Disclosures Related to the Statement of Budgetary Resources (Unaudited)

The unaudited Statement of Budgetary Resources (SBR) is a combined statement that provides information about how budgetary resources were made available, as well as their status at the end of the year.

Table 37: Status of Fund Balance with Treasury (Unaudited)

	(In Millions) 2017
Status of Fund Balance with Treasury:	
Unobligated Balance:	
Available	$ 325
Unavailable	613
Obligated Balance not yet Disbursed	28,973
Subtotal	$ 29,911
Borrowing Authority not yet Converted to Fund Balance	(27,057)
Suspense Fund under FBWT	1
Total Fund Balance with Treasury	$ 2,855

The Unavailable balance represents unobligated resources not yet apportioned by OMB and unobligated appropriations from prior years that are no longer available for new obligations. Borrowing Authority not yet Converted to Fund Balance represents unobligated and obligated amounts recorded as of September 30, 2017, which will be funded by future borrowings.

Terms of Budget Authority Used

Unobligated budget authority is the difference between the obligated balance and the total unexpended balance. It represents that portion of the unexpended balance unencumbered by recorded obligations. The main sources of budget authority are borrowing authority and appropriations. Each appropriation is provided on an annual, multi-year, or no-year basis. An appropriation expires on the last day of its period of availability and is no longer available for new obligations. An unobligated balance retains fiscal-year identity in an expired account for an additional five fiscal years. The unobligated balance remains available to make legitimate obligation adjustments, i.e., to record previously unrecorded obligations and to make upward adjustments in previously

Note 6 – Disclosures Related to the Statement of Budgetary Resources (Unaudited), Continued

underestimated obligations for five years. At the end of the fifth year, the authority is canceled. Thereafter, the authority is not available for any purpose.

Available Borrowing Authority

Per the Commodity Credit Corporation Charter Act, 15 U.S.C. 714, the Corporation's borrowing authority is made up of both interest- and non-interest-bearing notes. These notes are drawn upon on a daily basis when disbursements exceed deposits, as reported by FRB, their branches, Treasury, and CCC's financing office. CCC is authorized to issue, and have outstanding at any one time, bonds, notes, debentures, and other similar financing instruments in an aggregate amount not to exceed $30 billion. CCC's indefinite borrowing authority has a term of one year. CCC receives an annual appropriation to fund its net realized losses.

In addition, CCC has permanent indefinite authority to finance disbursements made under the liquidating accounts related to the pre-credit reform program activities, which are not covered by available working capital.

Apportionment Categories of Obligations Incurred

Obligations can either be categorized as direct or reimbursable. Direct obligations are not financed from reimbursements while reimbursable obligations are financed by offsetting collections that are payments to the performing account for goods and services provided to the ordering entity. For the fiscal year ended September 30, 2017, there were no obligations incurred under apportionment category A, which is funded on a quarterly basis. Obligations incurred under apportionment category B, which is funded annually, were as follows:

Table 38: Direct and Reimbursable Obligations (Unaudited)

	(in Millions)
	2017
Direct	$ 20,649
Reimbursable	-
Total Obligations	$ 20,649

Note 6 – Disclosures Related to the Statement of Budgetary Resources (Unaudited), Continued

Beginning Balance Adjustment:

As a result of weaknesses identified in the FY 2015 independent audit engagement, CCC undertook a clean-up effort related to Undelivered Orders (UDOs), identifying with program management and third party agencies appropriate adjustments. CCC management's objective was to achieve sufficient data accuracy to validate open UDO balances. CCC administers 37 programs and, within those programs, 138 program types. Obligations for each program type have differing trigger points and defined processes for evaluating and maintaining valid open obligations. All 37 programs and their corresponding program types were assessed as to materiality and certain attributes that would indicate obligations may be inactive.

As a result of its efforts, CCC recognized $1.2 billion in reductions (deobligation) to the October 1, 2016 UDO balance, offset by a $9.7 billion increase in the UDO balance, related to the CRP. Such efforts also identified and corrected processes to identify and estimate obligations, improved internal processes for review and adjustment of obligations, and improved processes dependent on obligations established by third party agencies. As a result of this effort, CCC believes the beginning balance and current year UDO balances are reasonably stated.

Undelivered Orders

Undelivered orders, either unpaid or prepaid, are purchase orders or contracts awarded for which goods or services have not yet been received. The amount for undelivered orders was $20 billion as of September 30, 2017.

Permanent Indefinite Borrowing Authority

CCC has a permanent indefinite borrowing authority, as defined by OMB Circular A-11. A permanent indefinite borrowing authority becomes available pursuant to standing provisions of law without further actions by Congress. Apportionment documents received for CCC's specific programs utilize the borrowing authority and provide spending limitations. OMB Circular A-11 permits the Corporation to incur obligations which can exceed its $30 billion borrowing authority ceiling but net disbursements financed cannot exceed the $30 billion limit at any point in time. CCC uses the net realized loss appropriation to repay debt to Treasury, and it also uses offsetting collections (mainly MAL repayments) to repay debt to Treasury. Liquidation of obligations is through the actual borrowing throughout the year.

Note 6 – Disclosures Related to the Statement of Budgetary Resources (Unaudited), Continued

President's Budget Reconciliation

The SF-133 (Report on Budget Execution and Budgetary Resources) which is used by CCC to report and certify obligation balances is also used to populate some portions of the Program and Financing Schedules (P&F Schedules) within the Budget of the United States Government.

Since the P&F Schedules within the *Budget of the United States Government, Fiscal Year 2019,* were not available at the time CCC's Annual Management Report for FY 2017 was issued, the reconciliation between the President's Budget and the SBR for FY 2017 could not be performed. The FY 2017 SBR will be reconciled to the FY 2017 actuals on the P&F Schedules reported in the *Budget of the United States Government, Fiscal Year 2019*, once released. The *Budget of the United States Government, Fiscal Year 2019,* is expected to be published in February 2018 and will be available on the website of the OMB (http://www.whitehouse.gov) at that time.

Note 7 – Reconciliation of Net Cost of Operations to Budget, (Unaudited)

Budgetary and proprietary accounting information are inherently different because of the types of information and the timing of their recognition. The Reconciliation of Net Cost of Operations to Budget provides a link between budgetary and proprietary accounting information in a way that helps users relate the two. It serves not only to explain how information on net obligations relates to the net cost of operations but also to demonstrate integrity between budgetary and proprietary accounting data. It further satisfies users' needs to understand how information on the use of budgetary resources relates to information on the cost of program operations.

Net obligations and the net cost of operations are different because (1) the net cost of operations may be financed by non-budgetary resources (e.g., imputed financing); (2) the budgetary and non-budgetary resources used may finance activities which are not components of the net cost of operations; and (3) the net cost of operations may contain components which do not use or generate resources in the current period.

Note 7 – Reconciliation of Net Cost of Operations to Budget, (Unaudited), Continued

The Reconciliation of Net Cost of Operations to Budget (Unaudited) for the fiscal year ended September 30, 2017 was as follows:

Table 39: Reconciliation of Net Cost of Operations to Budget (Unaudited)

		(In Millions) 2017
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	$	20,649
Less:Offsetting Collections, Recoveries, and Change in Uncollected Payments		12,073
Obligations Net of Offsetting Collections and Recoveries	$	8,576
Less: Offsetting Receipts		43
Net Obligations	$	8,533
Other Resources:		
Imputed Financing from Costs Absorbed by Others		1,345
Other		(40)
Net Other Resources Used to Finance Activities	$	1,305
Total Resources Used to Finance Activities	**$**	**9,838**
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet		2,799
Resources that Fund Expenses Recognized in Prior Periods		(40)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Credit Program Collections which Increase Liabilities for Loan Guarantees or Allowances for Subsidy		121
Change in Unfilled Customer Orders		(14)
Decrease in Exchange Receivables from the Public		7,318
Resources that Finance the Acquisition of Assets		(4,964)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of		(2,394)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**$**	**2,826**
Total Resources Used to Finance the Net Cost of Operations	**$**	**12,664**
Components of the Net Cost of Operations that will not Require or Generate Resources in the current period:		
Components Requiring or Generating Resources in Future Periods:		
Upward/(Downward) Reestimates of Credit Subsidy Expense		45
(Increase) in Exchange Revenue Receivable from the Public		(48)
Other		(14)
Total Components of Net Cost of Operations that will Require or Generate Resources in Future	$	(17)
Components not Requiring or Generating Resources:		
Depreciation and Amortization (related to Credit Reform)		(7)
Revaluation of Assets or Liabilities (related to Credit Reform)		(1)
Other Components not Requiring or Generating Resources:		
Bad Debt Expense		(1)
Cost of Goods Sold		57
Other		427
Total Components of Net Cost of Operations that will not Require or Generate Resources	$	475
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	**$**	**458**
Net Cost of Operations	**$**	**13,122**

Combining Statement of Budgetary Resources by Major Fund: Budgetary Accounts (Unaudited)
For the Fiscal Year Ended September 30, 2017
(Dollars in Millions)

		CCC Fund	P.L. 480 Title II Grants	Tobacco Trust Fund	USAID - P.L. 480 Title II Grants	P.L. 480 Direct Credit Liquidating Fund	Other	Total
Budgetary Resources:	Line #	(12X4336)	(12X2278)	(12X8161)	((72)12X2278)	(12X2274)		
Unobligated balance brought forward, October 1	1000	$ 393	$ 49	$ 17	$ 55	$ 27	$ 10	$ 551
Adjustment to unobligated balance brought forward, October 1 (Note 6-Unaudited)	1020	-	-	-	72	-	-	72
Unobligated balance brought forward, October 1, as adjusted	1020.5	$ 393	$ 49	$ 17	$ 127	$ 27	$ 10	$ 623
Recoveries of prior year unpaid obligations	1021	3,725	2	-	164	-	-	3,891
Other changes in unobligated balance	1043	133	109	-	(106)	(27)	-	109
Unobligated balance from prior year budget authority, net	1051	4,251	160	17	185	-	10	4,623
Appropriations (discretionary and mandatory)	1290	-	387	3	1,513	-	54	1,957
Borrowing Authority (discretionary and mandatory)	1490	14,451	-	-	-	-	-	14,451
Spending authority from offsetting collections (discretionary and mandatory)	1890	-	-	-	(4)	23	1	20
Total Budgetary Resources	1910	$ 18,702	$ 547	$ 20	$ 1,694	$ 23	$ 65	$ 21,051
Status of Budgetary Resources:							-	
Obligations Incurred (Note 6-Unaudited)	2190	$ 18,266	$ 465	$ -	$ 1,518	$ 1	$ 49	$ 20,299
Unobligated balance, end of year:							-	
Apportioned, unexpired account	2204	47	82	20	30	-	11	190
Exempt from apportionment, unexpired accounts	2304	84	-	-	-	-	-	84
Unapportioned, unexpired accounts	2404	305	-	-	146	22	4	477
Unexpired unobligated balance, end of year	2412	436	82	20	176	22	15	751
Expired unobligated balance, end of year	2413	-	-	-	-	-	1	1
Total Unobligated balance, end of year	2490	436	82	20	176	22	16	752
Total Budgetary Resources	2500	$ 18,702	$ 547	$ 20	$ 1,694	$ 23	$ 65	$ 21,051

Other Information (Unaudited)

Page 2		CCC Fund	P.L. 480 Title II Grants	Tobacco Trust Fund	USAID - P.L. 480 Title II Grants	P.L. 480 Direct Credit Liquidating Fund	Other	Total
Change in Obligated Balance:	Line #	(12X4336)	(12X2278)	(12X8161)	((72)12X2278)	(12X2274)		
Unpaid obligations:								
Unpaid obligations, brought forward, Oct 1	3000	$ 22,487	$ 81	$ 1	$ 1,285	$ -	$ 16	$ 23,870
Adjustment to unpaid obligations, start of year (Note 6-Unaudited)	3006	8,625	-		(72)	-	1	8,554
Obligations incurred	3012	18,266	465	-	1,518	1	49	20,299
Outlays (gross)	3020	(18,316)	(431)	-	(1,088)	(1)	(57)	(19,893)
Recoveries of prior year unpaid obligations	3042	(3,725)	(2)	-	(164)	-	-	(3,891)
Unpaid obligations, end of year	3050	$ 27,337	$ 113	$ 1	$ 1,479	$ -	$ 9	$ 28,939
Uncollected payments:								
Uncollected payments, Federal sources, brought forward, Oct 1	3060	(137)	-	-	-	-	-	(137)
Change in uncollected payments, Federal sources	3072	14	-	-	-	-	-	14
Uncollected payments, Federal sources, end of year	3090	$ (123)	$ -	$ -	$ -	$ -	$ -	$ (123)
Memorandum (non-add) entries:								
Obligated balance, start of year as adjusted (Note 6-Unaudited)		$ 30,975	$ 81	$ 1	$ 1,213	$ -	$ 17	$ 32,287
Obligated balance, end of year		$ 27,214	$ 113	$ 1	$ 1,479	$ -	$ 9	$ 28,816
Budget Authority and Outlays, Net:								
Budget authority, gross (discretionary and mandatory)	4175	$ 14,451	$ 387	$ 3	$ 1,509	$ 23	$ 55	$ 16,428
Actual offsetting collections (discretionary and mandatory)	4176	(7,541)	(3)	-	4	(271)	(8)	(7,819)
Actual offsetting collections (discretionary and mandatory)	4177	14	-	-	-	-	-	14
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	4178	133	3	-	-	-	-	136
Budget authority, net (discretionary and mandatory)	4180	$ 7,057	$ 387	$ 3	$ 1,513	$ (248)	$ 47	$ 8,759
Outlays, gross (discretionary and mandatory)	4185	$ 18,316	$ 431	$ -	$ 1,088	$ 1	$ 57	$ 19,893
Actual offsetting collections (discretionary and mandatory)	4187	(7,541)	(3)	-	4	(271)	(8)	(7,819)
Outlays, net (discretionary and mandatory)	4190	$ 10,775	$ 428	$ -	$ 1,092	$ (270)	$ 49	$ 12,074
Distributed offsetting receipts	4200	-	-	-	-	-	5	5
Agency Outlays, net (discretionary and mandatory)	4210	$ 10,775	$ 428	$ -	$ 1,092	$ (270)	$ 54	$ 12,079

Combining Statement of Budgetary Resources by Major Fund: Non-Budgetary Credit Program Financing Accounts (Unaudited)
For the Fiscal Year Ended September 30, 2017
(Dollars in Millions)

Page 3	Line #	P.L. 480 Direct Loans (12X4049)	CCC Export Guarantees (12X4337)	Farm Storage Facility Direct Loan (12X4158)	Other	Total
Budgetary Resources:						
Unobligated balance brought forward, October 1	1000	$ 16	$ 18	$ 17	$ 92	$ 143
Unobligated balance brought forward, October 1, as adjusted	1020.5	$ 16	$ 18	$ 17	$ 92	$ 143
Recoveries of prior year unpaid obligations	1021	-	-	7	-	7
Other changes in unobligated balance	1043	(13)	(4)	(17)	-	(34)
Unobligated balance from prior year budget authority, net	1051	$ 3	$ 14	$ 7	$ 92	$ 116
Borrowing Authority (discretionary and mandatory)	1490	3	12	259	1	275
Spending authority from offsetting collections (discretionary and mandatory)	1890	74	37	22	12	145
Total Budgetary Resources	1910	$ 80	$ 63	$ 288	$ 105	$ 536
Status of Budgetary Resources:						
Obligations Incurred (Note 6-Unaudited)	2190	$ 47	$ 49	$ 250	$ 4	$ 350
Unobligated balance, end of year:						
Apportioned, unexpired account	2204	30	7	-	11	48
Exempt from apportionment, unexpired accounts	2304	-	3	-	-	3
Unapportioned, unexpired accounts	2404	3	4	38	90	135
Unexpired unobligated balance, end of year	2412	$ 33	$ 14	$ 38	$ 101	$ 186
Total Unobligated balance, end of year	2490	33	14	38	101	186
Total Budgetary Resources	2500	$ 80	$ 63	$ 288	$ 105	$ 536

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Change in Obligated Balance:	Line #	P.L. 480 Direct Loans (12X4049)	CCC Export Guarantees (12X4337)	Farm Storage Facility Direct Loan (12X4158)	Other	Total
Unpaid obligations:						
Unpaid obligations, brought forward, Oct 1	3000	$ 1	$ 2	$ 122	$ (1)	$ 124
Obligations incurred	3012	47	49	250	4	350
Outlays (gross)	3020	(47)	(50)	(208)	(4)	(309)
Recoveries of prior year unpaid obligations	3042	-	-	(7)	-	(7)
Unpaid obligations, end of year	3050	$ 1	$ 1	$ 157	$ (1)	$ 158
Uncollected payments:						
Uncollected payments, Federal sources, brought forward, Oct 1	3060	(2)	(1)	(7)	(4)	(14)
Change in uncollected payments, Federal sources	3072	2	1	7	3	13
Uncollected payments, Federal sources, end of year	3090	$ -	$ -	$ -	$ (1)	$ (1)
Memorandum (non-add) entries:						
Obligated balance, start of year		$ (1)	$ 1	$ 115	$ (5)	$ 110
Obligated balance, end of year		$ 1	$ 1	$ 157	$ (2)	$ 157
Budget Authority and Outlays, Net:						
Budget authority, gross (discretionary and mandatory)	4175	$ 77	$ 49	$ 281	$ 13	$ 420
Actual offsetting collections (discretionary and mandatory)	4176	(98)	(59)	(206)	(20)	(383)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	4177	2	1	7	3	13
Budget authority, net (discretionary and mandatory)	4180	$ (19)	$ (9)	$ 82	$ (4)	$ 50
Outlays, gross (discretionary and mandatory)	4185	$ 47	$ 50	$ 208	$ 4	$ 309
Actual offsetting collections (discretionary and mandatory)	4187	(98)	(59)	(206)	(20)	(383)
Outlays, net (discretionary and mandatory)	4190	$ (51)	$ (9)	$ 2	$ (16)	$ (74)
Distributed offsetting receipts	4200	(14)	(23)	(11)	-	(48)
Agency Outlays, net (discretionary and mandatory)	4210	$ (65)	$ (32)	$ (9)	$ (16)	$ (122)

Summary of Consolidated Balance Sheet Audit

The table below is a summary of the results of the FY 2017 independent audit of CCC's Consolidated Balance Sheet.

Audit Opinion					
Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending
Budgetary Transactions	1	0	0	0	1
Accounting Estimates	1	0	0	0	1
Total Material Weakness	2	0	0	0	2

Summary of Management Assurances[6]

The table below is a summary of management assurances related to the effectiveness of internal control over CCC's financial reporting and operations, and its conformance with financial management system requirements under Sections 2 and 4 of FMFIA. The last portion of the table is a summary of CCC's compliance with FFMIA.

Federal Managers' Financial Integrity Act (FMFIA § 2)						
Statement of Assurance	Reasonable Assurance, except for Material Weaknesses noted below					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Funds Control Management	1					1
Financial Reporting	1		1			0
Accounting for Parent/Child Transactions	1			1		0
Accounting for Budgetary Transactions	1					1
Accounting Estimates	1					1
Maintenance of Accounting Records	1		1			0
Total Material Weaknesss	6	0	2	1	0	3
Effectiveness of Internal Control over Operations (FMFIA §2)						
Statement of Assurance	Reasonable Assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Accounting for Commodity Certificate Exchanges	1		1			0
Reconciling Fund Balance with Treasury	1				1	0
Total Material Weaknesss	2	0	1	0	1	0
Compliance with Federal Financial Management System Requirements (FMFIA §4)						
Statement of Assurance	Federal Systems comply, except for instances of non-compliance, to financial management system requirements					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
System Non-compliance Funds Control Management	1					1
Total non-compliances	1	0	0	0	0	1

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. Federal Financial Management System Requirements	No lack of compliance noted	No lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	Lack of compliance noted
3. USSGL at Transaction level	Lack of compliance noted	Lack of compliance noted

[6] The Summary of Management Assurances is as of completion of the Annual Management Report.

Summary of Outstanding Material Weaknesses

The following table provides FY 2017 accomplishments and FY 2018 planned actions toward resolving the outstanding material weaknesses.

Table 40: Summary of Outstanding Material Weaknesses

Financial Management	
Material Weakness Existing (beginning FY 2017)	CCC needs to address material weaknesses identified in the following areas: Accounting for Budgetary Transactions, Accounting Estimates, and Maintenance of Accounting Records.
Overall Estimated Completion Date	**FY 2018**
FY 2017 Accomplishments	**FY 2018 Planned Actions**
During FY 2017, CCC: • Continued to update Standard Operating Procedures (SOPs), policies, checklists, etc., to incorporate the requirements for identifying the need for, preparing, supporting, validating, reviewing and recording, and performing look-backs of accounting estimates; • Developed effective information and communication processes to ensure that policies and procedures related to programs or events that may give rise to the recognition of accounting transactions are consistently communicated and applied throughout the agency and that technical accounting issues are identified, analyzed, and resolved in a timely manner. • Implemented processes, procedures, and effective controls to enable the timely preparation of financial statements and sufficient evidential matter to support accounting transactions;	During FY 2018, CCC will: • Continue the implementation of processes, procedures, and controls to improve the accuracy and timeliness of the FBWT reconciliation, including reconciliations of related child agency FBWT accounts • Implement an independent review and reconciliation of FBWT with Treasury for USAID and monitor internal controls regarding FBWT reconciliations in accordance with guidelines in the Treasury Financial Manual. • Ensure the month end reconciliations for significant accounts are performed timely, and reviewed at appropriate precision levels through the implementation of dollar materiality thresholds that are monitored by management. Reconciling differences identified should be corrected timely in the subsidiary or general ledgers. Research and identify existing unknown differences per Account Reconciliation and Analysis Policy.

Financial Management	
• Provided updated status to OMB Circular A-123, Appendix A Corrective Action Plans. • Designed and implemented Business Portfolio Manual to document business procedures including program accounting flow and key internal controls; • Designed and implemented policies, procedures, and controls to accept, track, and monitor agreements entered into with other agencies (customers); • Continue to refine the reconciliation process for budgetary and proprietary balances with trading partners. • Conducted training for the Financial Management Division staff and managers to provide an in-depth look at the USSGL and its practical uses in performing key activities that ultimately support data integrity and the agency's ability to compile complete, accurate and reliable financial statements. • Implemented reconciliation processes to ensure FBWT, Accounts Receivable, and Accounts Payable transactions are timely and accurately recorded in the general ledger system. • Implemented a reconciliation process to assess and review CCC-related transactions and balances reported in the USAID general ledger for FBWT. • Implemented a process to calculate accruals and advances for CCC funded USAID grants. • Expanded tie-point analysis process to include additional	• Continue to refine SOPs, policies, checklists, etc., to incorporate the requirements for identifying the need for, preparing, supporting, validating, reviewing and recording, and performing look-backs of accounting estimates; • Continue to develop effective information and communication processes to ensure that policies and procedures related to programs or events that may give rise to the recognition of accounting transactions are consistently communicated and applied throughout the agency and that technical accounting issues are identified, analyzed, and resolved in a timely manner; • Continue to implement processes, procedures, and effective controls to enable the timely preparation of financial statements and sufficient evidential matter to support accounting transactions; • Continue with the execution of the existing OMB Circular A-123, Appendix A Corrective Action Plan, Maintaining, Controlling, and Monitoring the CORE general ledger by further improving and enhancing CCC reconciliations and account analysis; • Continually refine the accrual and advance calculation process for USAID grants funded by CCC. • Continue to refine the reconciliation process for unexpended appropriations, cumulative results of operations, allocation transfers, unapportioned authority, allotments, undelivered orders, delivered orders, expended

Financial Management	
training and workshops to provide expert assistance with reconciliations, trial balance analytics, clean-up projects, abnormal balances, and variances. • Developed and implemented software modifications to the Commodity Loan Processing System and Automated Cotton Reporting System to incorporate CCE functionality, including providing the correct accounting entries to CCC's general ledger - CORE which will remediate the condition. • Continue to refine the reconciliation process for unexpended appropriations, cumulative results of operations, allocation transfers, unapportioned authority, allotments, undelivered orders, delivered orders, expended appropriations, and operating expenses.	appropriations, and operating expenses.

Summary of Outstanding System Non-Conformance

Funds Control Management non-conformance is also reported as a system non-compliance, and is included in the FFMIA Report on Financial Management Systems. The following table provides FY 2017 accomplishments and FY 2018 planned actions toward resolving CCC's outstanding system non-conformances.

Table 41: Summary of Outstanding System Non-Conformance

Funds Control Management	
Material Weakness Existing	System improvements needed in recording obligations at the transactional level. Non-compliance with Federal Financial Management Improvement Act of 1996.
Overall Estimated Completion Date	**FY 2019**
FY 2017 Accomplishments	**FY 2018 Planned Actions**
During FY 2017, CCC: • Continued to modernize program and financial systems to eliminate the standing material weakness and become substantially compliant with the Funds Control/Obligation requirements related to obligations at the transactional level; • Implemented standardized apportionment processes for program divisions; • Evaluated and documented all CCC program's obligation life cycle; • Completed the Integration of Warehouse Storage Charges due to CCC forfeited commodities with the eFMS/COF to achieve full funds control at a transaction level.	During FY 2018, CCC will: • Continue to establish Funds Control Levels by Program. • Update policy, procedures and systems functionality to support the budget execution process for CCC programs. • Continue to partner with Deputy Administrator for Farm Programs and Information Technology Services Division towards completing software modifications to ensure all program applications are in full compliance with the Funds Control/Obligation Requirements (i.e., business events, establishments, liquidations, adjustments (both downward and upward)) related to obligations at the transaction level. • Implement the ARC County Pilot Program with the eFMS/COF to achieve full funds control at a transaction level.

Improper Payments Information Act of 2002
Improper Payments Elimination and Recovery Act of 2012
Improper Payments Elimination and Recovery Improvement Act of 2012

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), requires agencies to review programs susceptible to significant improper payments, report estimated improper payments and establish corrective actions to reduce improper payments. OMB provides guidance on measuring, reducing, recovering, and reporting improper payments through OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* and OMB Circular A-136.

Additional information can be found in Section III of the USDA FY 2017 Agency Financial Report. The following link contains more detailed information on improper payments and other information regarding improper payments not included in this report: https://paymentaccuracy.gov/.

FY 2017 operational guidance for all improper payment initiatives is anticipated to be received in late October or early November.

Table 42: Summary of Improper Payment Results

Programs	Total Outlays (Millions)		Improper Payments (Millions)		Improper Payments (Percentage)		Overpayments (Millions)	Underpayments (Millions)
	2016	2017	2016	2017	2016	2017	2017	2017
ARC/PLC[1]	NA	$ 5,314.00	NA	$ 38.60	NA	0.73%	$ 38.60	$ -
ECP[2]	$ 0.04	NA	$ 0.0001	NA	0.25%	NA	NA	NA
EFRP	$ 0.79	$ 1.04	$ 0.01	$ 0.02	1.27%	1.53%	$ 0.02	$ -
LDP	$ 124.01	$ 171.72	$ 3.98	$ 2.92	3.21%	1.70%	$ 2.86	$ 0.06
LFP	$ 2,581.12	$ 457.31	$ 122.35	$ 14.34	4.74%	3.14%	$ 11.38	$ 2.96
LIP	$ 54.27	$ 43.19	$ 6.98	$ 2.35	12.86%	5.44%	$ 2.03	$ 0.32
NAP	$ 128.85	$ 139.60	$ 7.05	$ 11.85	5.47%	8.49%	$ 11.58	$ 0.27
SURE	$ 4.55	$ 1.43	$ 0.52	$ 0.06	11.43%	4.29%	$ 0.01	$ 0.05

[1] ARC/PLC had no outlays in FY 2016

[2] ECP had no outlays in FY 2017

Fraud Reduction Report

Overview

As required by OMB Circular A-123, USDA is in the process of implementing a Departmental-Level Enterprise Risk Management (ERM) program that effectively identifies risks; assesses, analyzes, and prioritizes those risks; and formulates and documents the risks. As a component agency of USDA, CCC is participating in that effort. The implementation of ERM has helped agencies to better identify risk and vulnerabilities and appropriately take action to reduce and prevent fraud. As the Department and CCC continue to implement the requirements of OMB Circular A-123, CCC will use agency best practices to identify and minimize risks and vulnerabilities to prevent fraud. Outlined below are specific actions CCC is taking to integrate fraud risk prevention and monitoring into the management of internal controls.

Risk Assessment

OMB Circular A-123, Appendix A, *Internal Control over Reporting*, annual risk assessment incorporates specific internal and external fraud risk questions in the "Inherent Risk Considerations" section. The questions allow the respondent to rate the risk of the agency's process as either highly susceptible, susceptible, or not susceptible to fraud. The overall risk rating is dependent on the agency's responses, tallied along with other risk responses to determine the level and frequency of testing.

Additionally, as a requirement of the Statement on Auditing Standards (SAS) No. 122, *Clarification and Recodification*, specifically Audit Section 240, Consideration of Fraud in a Financial Statement Audit, CCC reports responses to a fraud questionnaire to the Department.

Entity Level Controls

CCC completes an annual Entity Level Control (ELC) assessment. The ELC assessment was recently updated to comply with the most current GAO — *Standards for Internal Control in the Federal Government* ("Green Book").

The assessment includes GAO Principle 8, which assesses fraud risk. Attributes include: types of fraud, fraud risk factors, and responses to fraud risks. Objectives include: identifying fraud risks based on fraud risk factors; assessing Identified fraud risks for significance; and properly responding to identified fraud risks.

Fraud Reduction Report, Continued

Access Controls

Access controls are configured such that conflicting accounting roles are prohibited, unless there is an immediate need that is fully documented, mitigated, and supported by compensating controls. There is a standard process for the review and approval of mitigating controls to ensure that control strategies are properly documented and carried out by the requesting agency.

Segregation of Duties (SOD)

Various CCC financial systems are configured such that conflicting roles are prohibited, which ensures proper SOD. Those who initiate a transaction in the financial systems are not allowed to also approve that same transaction. There are also financially significant, agency specific SOD controls that are documented and tested annually during the OMB Circular A-123, Appendix A assessment. The strict prohibition of conflicting roles reduces the risk of fraud.

Table 43: Agency Transactional Control Objectives to Reduce Fraud:

Process	Objective	Risk
Collections	Cash receipts are protected before they are deposited.	Cash receipts are not protected before they are deposited, which may result in fraudulent activity.
Credit Extension	Direct loan obligations recorded in the general ledger are valid, pertain to the purpose of the appropriation, and are supported by documentation.	Direct loan obligations recorded in the general ledger are not valid, do not pertain to the purpose of the appropriation, and are not supported by documentation.
Disbursements	Disbursements are valid and supported by sufficient and relevant documentation.	Disbursements are not valid and supported by sufficient and relevant documentation.
Grant Awards and Modifications	Grants are awarded to eligible recipients (includes Do Not Pay verification).	Grants are awarded to ineligible recipients (includes Do Not Pay verification).
Loss Claims	Loss Claims are for valid policy reinsurance year.	Unauthorized or incomplete Loss Claims may be paid.

Process	Objective	Risk
Payments — Farm Support	Recorded obligations and payments for CCC farm support programs are valid (made to only eligible farms/producers) and are approved/authorized by management.	Recorded obligations and payments for CCC farm support programs are not valid (made to ineligible farms/producers) and/or are not approved/authorized by management.

Summary of Federal Grant and Cooperative Agreement Awards

Pursuant to the GONE Act, the table below is a summary of CCC's total number of federal grant and cooperative agreement awards and balances for which closeout has not yet occurred but for which the period of performance has elapsed more than two years with zero balances and undisbursed balances.

Table 44: Summary of Federal Grant and Cooperative Agreement Awards and Balances

Category	2-3 Years	>3-5 Years	>5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	134	205	287
Number of Grants/Cooperative Agreements with Undisbursed Balances	15	5	7
Total Amount of Undisbursed Balances (In Dollars)	$1,761,544	$673,629	$78,859

Nearly all of the grants reflected in the table above are related to USAID's administration of P.L. 480, Title II, funds provided by CCC under the parent-child relationship with USAID. USAID reports that they are taking aggressive action to finalize, deobligate and close-out these old grants. USAID has deobligated funds in the amount of $4.8 million between May 2017 and September 2017. Several grants were awaiting finalization of rates and final vouchers. USAID continues to work with their vendors in an effort to resolve any remaining issues, with a goal of closing these other awards with undisbursed balances during FY 2018. USAID also reported that they anticipate closing all grants with zero balances as of September 30, 2017, during the 2018 fiscal year. Challenges faced by USAID in the closeout of these old grants are related to receipt of final vouchers from vendors, administrative challenges related to finalizing rates, and contract line item corrections. For the grants not related to USAID, CCC has only one Voluntary Public Access (VPA) grant with undisbursed funds. The other 25 VPA grants all have zero balances and are anticipated to be closed out early in FY 2018.

Appendix: Glossary of Acronyms

Glossary of Acronyms

ACRONYM	TITLE
ABC	Almond Board of California
ACRE	Average Crop Revenue Election Program
ADA	Antideficiency Act
AMS	Agricultural Marketing Service
ARC	Agriculture Risk Coverage
BCR	Benefit-Cost Ratio
BEHT	Bill Emerson Humanitarian Trust
CCC	Commodity Credit Corporation
CCE	Commodity Certificate Exchange
CDPB	The California Dried Plum Board
CFO	Chief Financial Officer
COF	Common Obligation Framework
CRP	Conservation Reserve Program
CSC2	Credit Subsidy Calculator 2
CWC	California Walnut Commission
DCP	Direct and Counter-cyclical Payment Program
DDG	Distillers Dried Grains
DMA	Designated Marketing Association
DOJ	Department of Justice
eFMS	Electronic Funds Management System

ACRONYM	TITLE
ELAP	Emergency Livestock Assistance Program
ELC	Entity Level Control
EMP	Emerging Markets Program
EPA	Environmental Protection Agency
ERM	Enterprise Risk Management
ERS	Economic Research Service
FASAB	Federal Accounting Standards Advisory Board
FAS	Foreign Agricultural Service
FBWT	Fund Balance with Treasury
FCIC	Federal Crop Insurance Corporation
FCRA	Federal Credit Reform Act of 1990
FFAS	Farm and Foreign Agricultural Services
FFP	Food For Peace
FFMIA	Federal Financial Management Improvement Act
FGP	Facilities Guarantee Program
FMD	Foreign Market Development Program
FMFIA	Federal Managers' Financial Integrity Act
FNCS	Food, Nutrition, and Consumer Services
FNS	Food and Nutrition Service
FRB	Federal Reserve Bank

Glossary of Acronyms

ACRONYM	TITLE
FRPP	Farm and Ranch Lands Protection Program
FSA	Farm Service Agency
FSFL	Farm Storage Facility Loan Program
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GDP	Gross Domestic Product
GFR	General Fund Receipt
GONE	Grants Oversight and New Efficiency Act
GSM	General Sales Manager
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act of 2002
LDP	Loan Deficiency Payment
LFP	Livestock Forage Program
LIP	Livestock Indemnity Program
MAL	Marketing Assistance Loan Program
MAP	Market Access Program

ACRONYM	TITLE
MPP	Margin Protection Program
MRP	Marketing and Regulatory Programs
NAP	Noninsured Crop Disaster Assistance Program
NRE	Natural Resources and Environment
NRCS	National Resources Conservation Service
OGC	Office of the General Counsel
OMB	Office of Management and Budget
P&F Schedule	Program and Financing Schedule
P.L. 480	Agricultural Trade Development and Assistance Act of 1954
PLC	Price Loss Coverage
QSP	Quality Samples Program
RD	Rural Development
ROI	Return on Investment
SAS	Statement on Auditing Standards
SBR	Statement of Budgetary Resources
SFFAS	Statement of Federal Financial Accounting Standards
SME	Small to Medium-Sized Enterprise
SOD	Segregation of Duties
SOP	Standard Operating Procedure

Glossary of Acronyms

ACRONYM	TITLE
SRTG	State Regional Trade Groups
SSFL	Sugar Storage Facility Loan
TAP	Tree Assistance Program
TASC	Technical Assistance for Specialty Crops
TTPP	Tobacco Transition Payment Program
UDO	Undelivered Order
USAID	United States Agency for International Development

ACRONYM	TITLE
USDA	United States Department of Agriculture
USGC	U.S. Grains Council
USSGL	United States Standard General Ledger
USW	U.S. Wheat Associates
USWA	United States Warehouse Act
VPA	Voluntary Public Access

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